

CRISP · POINT-WISE · EVERY QUESTION LINKED

RTP · MTP 1 · MTP 2

Summary

ICAI papers for the November 2026 attempt — every MCQ and every descriptive question

CA RAVI TAORI

NOVEMBER 2026 EXAMS

New questions identified against the PARAM Question Bank (Nov 26 edition)

105

QUESTIONS

54

MCQS

51

DESCRIPTIVE

16

NEW VS PARAM

Summary of the three papers

PAPER	CASE SCENARIOS	MCQS	DESCRIPTIVE	TOTAL	NEW (MCQ + DESC)
RTP Revision Test Paper	1	8	13	21	0 + 1 = 1
MTP 1 Mock Test Paper - Series I	4	23	19	42	0 + 3 = 3
MTP 2 Mock Test Paper - Series II	4	23	19	42	9 + 3 = 12
Total	9	54	51	105	16

New questions at a glance [full list »](#)

RTP	1	Q17
MTP 1	3	Q1a Q3b Q5a
MTP 2	12	MCQ 1 MCQ 2 MCQ 3 MCQ 10 MCQ 11 MCQ 12 MCQ 13 MCQ 18 MCQ 21 Q2c
		Q5c Q6a

How this book works

- Part 1 — Summary** (pages 1–46): new-questions list, full index, then every question as a crisp card — RTP first, then MTP 1, then MTP 2.
- Part 2 — ICAI papers, unchanged** (pages 47–161): the full RTP and both MTPs with ICAI's own answers.
- On every card, **Click for detailed question »** opens the full ICAI question, and **ICAI answer »** opens ICAI's answer. On every ICAI page, « **Back to summary** brings you back.
- Every row of the index and of the new-questions list is clickable. Links work in Adobe, Chrome, Edge, Xodo and phone PDF apps (not in WhatsApp's built-in preview).

NEW

not in PARAM

PARAM 23.050

same question already in PARAM

≈ PARAM 23.050

same point covered by that PARAM question

New Questions — RTP, MTP 1 & MTP 2

A question is marked NEW when no PARAM question tests the same specific point. Do these first if you have revised from PARAM. Click any row to open its summary.

Q.No	Question — what is new	Ch	Page
RTP · Revision Test Paper · 1 new			
Q17	XYZ Investments — Unregistered Type 1 NBFC Exemption <i>New NBFC Amendment Directions 2026: Unregistered Type 1 NBFC and deregistration deadline</i>	14	13
MTP 1 · Mock Test Paper - Series I · 3 new			
Q1a	Nest & Co — Monitoring Deficiencies under SQC 1 <i>PARAM has SQC 1 complaints only; monitoring requirements as a whole not asked</i>	1	23
Q3b	Alpha, Beta, Gamma — NBFC Registration under Amendment Directions 2026 <i>Registration Amendment Directions 2026 three-category framework not in PARAM</i>	14	26
Q5a	Solstice Textiles — Unrecorded Fixed Deposit Confirmed by Bank <i>Unrecorded FD found via bank confirmation with PAN-misuse explanation; no PARAM match</i>	5	28
MTP 2 · Mock Test Paper - Series II · 12 new			
MCQ 1	Aarav Agro — Samples for Vendor Balance Reconciliations <i>PARAM has no vendor-reconciliation sample selection question</i>	5	31
MCQ 2	Testing Operating Effectiveness of Payables Controls <i>No PARAM question on choosing a test of controls over payables</i>	4	31
MCQ 3	Surya Sunflower — Unrecorded Invoices and Cut-off <i>GRN-based payables cut-off not asked; 168.020 is about missing POs</i>	5	31
MCQ 10	Arogya Bank — Authority to Appoint Statutory Auditors <i>No PARAM question on who appoints bank statutory auditors</i>	14	34
MCQ 11	Sukh and Associates — Stock Audit vs Statutory Audit <i>Statutory plus stock audit conflict in bank not asked in PARAM</i>	14	34
MCQ 12	Kochi Branch — Unpreserved Cash Remittance Intimations <i>Classifying minor concurrent audit irregularity not in PARAM</i>	14	34
MCQ 13	Kochi Branch — Verifying High Value Cash Deposits <i>High value cash deposit concurrent audit checks not in PARAM</i>	14	35
MCQ 18	NovaTech — CIA Response to HR Audit Red Flags <i>Internal audit fraud red-flag escalation not asked in PARAM</i>	16	36
MCQ 21	STU Ltd — Internal Auditor Approaching Vendors <i>Internal auditor contacting vendors not asked in PARAM</i>	16	37
Q2c	Phishing And Ransomware — Malware Types <i>DAA.400/500 only name ransomware, trojans; Trojan mode of attack not asked</i>	12	40
Q5c	CA Ajeet — Non-Compliance with Companies Act Auditor Duties <i>No PARAM question on Second Schedule Part II Cl 5 (Companies Act contravention)</i>	19	44
Q6a	BCA Ltd — Joint Audit Plan Considerations <i>PARAM joint-audit Qs cover division/responsibility, not joint audit plan contents</i>	3	44

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RTP · Revision Test Paper · Nov 2026

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MCQ 2	Priya — Representing Employer and Fellow Employee	19	≈ PARAM 655.080	7
MCQ 3	Early Adoption of Ind AS — Reporting	7	≈ PARAM 332.100	7
MCQ 4	Early Adoption Without Adequate Disclosure	7	≈ PARAM 119.400	8
MCQ 5	Negative Confirmation — Non-Response	5	≈ PARAM 65.200	8
MCQ 6	Vikas Constructions — BRSR Principle 8 (Inclusive Growth)	18	≈ PARAM SDG.360	8
MCQ 7	Bank — AFS to HTM Transfer Without Board Approval	14	≈ PARAM 458.030	9
MCQ 8	Kavya Industries — Directors' Report Inconsistent with FS	7	≈ PARAM 128.200	9

PART II — DESCRIPTIVE QUESTIONS

Q9	KPK Manufacturing — Use of Internal Audit Work	3	≈ PARAM 103.150	9
Q10	LML Ltd — Going Concern Considerations	6	≈ PARAM 90.050	10
Q11	Rajhans Textiles — CARO 2020 Reporting	7	≈ PARAM 394.000	10
Q12	JKL Ltd — Summary Financial Statements Procedures	8	≈ PARAM 810.150	10
Q13	Luck & Associates — Review Engagement Acceptance	10	PARAM 2400.030	11
Q14	ABC Ltd — Examination of Prospective Financial Information	11	PARAM 3400.020	11
Q15	Nova Ltd — Remote Audit Confidentiality, Security & Data Protection	12	PARAM DAA.650	12
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MTP 1 · Mock Test Paper - Series I · Nov 2026

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Part I Case Scenario based MCQs

CASE SCENARIO 1

PNBM & Associates — Tax Audit Limit, Ethics, Ind AS Adoption & Confirmations

[Click for full case »](#)

Four-partner firm; Chetan signs 68 tax audit reports. Statutory audit of Solaris Renewables: CFO Priya's tax representation, early Ind AS adoption, and receivable/bank confirmation non-responses. — MCQ 1–5

MCQ 1

Chetan — Excess Tax Audit Reports

Ch 19 · Professional Ethics & Liabilities of Auditors

≈ PARAM 774.010

QUESTION

Chetan, a partner in a 4-partner firm, signed **68 tax audit reports** (excluding 44AD/44ADA/44AE), arguing the firm's aggregate limit is 240. Is he guilty of misconduct?

OPTIONS

Options test whether the 60 limit is firm-wide pooled, per partner, split corporate vs non-corporate, or scaled by number of partners.

ANSWER

(b) Council guidelines — the limit of **60 tax audits** per financial year is an aggregate for each member (individual capacity plus as partner). It cannot be distributed or shared between partners, so a firm-wide pool of 240 is invalid. Chetan signed 68, so he is guilty.

APPLIES

Chartered Accountants Act, 1949 · Council Guidelines on tax audit limit · Sec 44AB

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 2

Priya — Representing Employer and Fellow Employee

Ch 19 · Professional Ethics & Liabilities of Auditors

≈ PARAM 655.080

QUESTION

CA Priya, CFO of Solaris, represented the company before Income-tax authorities and then agreed to represent fellow employee Karan in his **personal assessment**. What is correct?

OPTIONS

Options range from allowing both, allowing Karan only, to barring even employer representation; the trap is extending the employer-representation permission to a colleague.

ANSWER

(c) A CA in employment may appear as the **tax representative of her employer** but not for a fellow employee in personal proceedings; that amounts to professional misconduct. Hence (c); the option permitting both, or only Karan, is wrong, and a total bar on employer representation is also wrong.

APPLIES

Chartered Accountants Act, 1949 · Code of Ethics

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 3

Early Adoption of Ind AS — Reporting

Ch 7 · Reporting

≈ PARAM 332.100

QUESTION

Solaris early adopted a new Ind AS (mandatory from 1 April 2027) with **material effect**, appropriate accounting and adequate disclosure. How is it dealt with in the auditor's report?

OPTIONS

Options pick between Other Information, KAM, Other Matter and Emphasis of Matter paragraphs.

ANSWER

(d) SA 706 — an **Emphasis of Matter** paragraph draws attention to a matter already appropriately presented or disclosed in the FS that is fundamental to users' understanding. Early adoption is accounted for and disclosed, so EOM fits. Other Matter is for matters not presented or disclosed in the FS.

APPLIES

SA 706 · SA 705

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 4****Early Adoption Without Adequate Disclosure**

Ch 7 · Reporting

≈ PARAM 119.400

QUESTION

If the early adoption was **not adequately disclosed** in the notes, though the accounting treatment was appropriate, how does the reporting change?

OPTIONS

Options test whether inadequate disclosure still permits an Emphasis of Matter, an EOM with a note on inadequacy, or a KAM.

ANSWER

(a) An **EOM** can be used only for a matter adequately presented or disclosed in the FS. Inadequate disclosure is itself a **material misstatement**, so the auditor issues a qualified or adverse opinion under SA 705. Neither EOM nor KAM can cure it; KAM is not automatic.

APPLIES

SA 706 · SA 705 · SA 701

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 5****Negative Confirmation — Non-Response**

Ch 5 · Audit Evidence

≈ PARAM 65.200

QUESTION

60 positive requests (15 agreed, 5 discrepancies, 40 silent), one unreliable reply, and **120 negative requests unanswered**. Which response is most appropriate under the SA?

OPTIONS

Options test what silence to a negative request means, response bias, and whether negative confirmation can be the sole substantive procedure.

ANSWER

(c) SA 505 — a negative request seeks a reply only on **disagreement**, so non-response does not mean misstatement. (a) is wrong: silence does not evidence receipt or accuracy. (b) reverses the bias (parties reply more when information is **not** in their favour). (d) is wrong: negative confirmation can be the sole substantive procedure only if **all** SA 505 conditions are met, not just one.

APPLIES

SA 505 · SA 500

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 6****Vikas Constructions — BRSR Principle 8 (Inclusive Growth)**

Ch 18 · SDG & ESG Assurance

≈ PARAM SDG.360

QUESTION

Vikas Constructions plans an industrial corridor with possible community relocation. Which proposed action is **not aligned with Principle 8** (inclusive growth and equitable development)?

OPTIONS

Three options reflect Principle 8 (identify impacts, track adverse impacts, inclusive innovation); one prioritises efficiency over displaced communities without negotiation.

ANSWER

(c) BRSR Principle 8 expects entities to identify and mitigate social impacts (land acquisition, relocation) and to engage communities through **participative and informed negotiation**. Maximising economic efficiency despite displacement and without negotiation contradicts it; the other three are core elements.

MCQ 7

Bank — AFS to HTM Transfer Without Board Approval

Ch 14 · Audit of Banks & NBFCs

≈ PARAM 458.030

QUESTION

A bank shifts Government securities from **AFS to HTM**; HTM conditions are met and ALCO approved, but no Board approval. What is the most appropriate treatment?

OPTIONS

Options test whether eligibility plus ALCO approval suffices, disclosure as a substitute, or later Board ratification.

ANSWER

(b) Meeting HTM eligibility is not enough; the **prescribed approval requirements** for the transfer must also be complied with. ALCO approval cannot replace the Board's approval, and disclosure or later ratification does not cure the missing approval.

APPLIES

RBI Investment Classification Directions · Bank audit

MCQ 8

Kavya Industries — Directors' Report Inconsistent with FS

Ch 7 · Reporting

≈ PARAM 128.200

QUESTION

The Directors' Report says revenue grew **22%**; audited FS show 9%. FS are correct and the error lies only in the report. What should the auditor do?

OPTIONS

Options test modifying the FS opinion, escalating via management and TCWG under SA 720, ignoring other information, or withdrawing.

ANSWER

(b) SA 720 — request mgmt to correct the **other information**; if it refuses and the auditor concludes it is materially misstated, communicate with **TCWG** and consider implications for the auditor's report. The FS opinion is not modified, as the FS themselves are correct, and withdrawal is not required.

APPLIES

SA 720 · SA 260

Part II**Descriptive Questions**

Q9

KPK Manufacturing — Use of Internal Audit Work

Ch 3 · Audit Planning, Strategy & Execution

≈ PARAM 103.150

FOCUS

- Seven internal audit assignments: identify which the external auditor can use and which not.
- Partner proposes extensive reliance to cut external procedures.

APPLIES

SA 610 — Using the Work of Internal Auditors

CONCEPT

- Usable: testing operating effectiveness of controls; substantive procedures with limited judgment.
- Usable: inventory count observation; tracing transactions through the information system.
- Usable: compliance testing; reviews of non-significant subsidiaries (if no conflict with SA 600).
- Areas of significant judgment must be performed by the external auditor himself.
- External auditor remains solely responsible for the audit opinion.

CASE

- Yes: purchase-payment controls testing, inventory count, regulatory compliance, small overseas subsidiary.
- No: materiality, litigation provision assumptions, nature, timing and extent of revenue procedures and drafting opinion.

CONCLUSION Partner's proposal to rely extensively on all internal audit work is not appropriate; significant-judgment areas stay with the external auditor.

[Click for detailed question »](#)

[ICAI answer »](#)

Q10 LML Ltd — Going Concern Considerations

Ch 6 • Completion & Review

≈ PARAM 90.050

FOCUS

- Declining revenue, losses, bank dues delays, financing difficulty and customer loss; mgmt confident via forecasts.
- Auditor doubts forecast assumptions; FS note discloses the circumstances.

APPLIES

SA 570 — Going Concern

CONCEPT

- Obtain S&A evidence on whether a **material uncertainty** exists, incl. mitigating factors.
- Ask mgmt to assess if not done; evaluate feasibility of mgmt's plans.
- Cash flow forecast: evaluate reliability of data and support for assumptions.
- Consider later facts; obtain written representations on plans and feasibility.

CASE

- Review mgmt assessment; challenge forecasts and assumptions; check ratios and loan covenants.
- Review subsequent events, financing efforts, lenders' reluctance, customer loss and delays.

CONCLUSION

If the material uncertainty is adequately disclosed, give an unmodified opinion with a separate **Material Uncertainty Related to Going Concern** section drawing attention to the note.

[Click for detailed question »](#)

[ICAI answer »](#)

Q11 Rajhans Textiles — CARO 2020 Reporting

Ch 7 • Reporting

≈ PARAM 394.000

FOCUS

- Three situations: ₹5 crore subsidiary loan, bank default of ₹6 crore for 95 days (cleared), disputed ₹2 crore tax demand.

APPLIES

CARO 2020 — Para 3(iii), 3(ix), 3(vii)

CONCEPT

- Clause (iii)(a)(A): aggregate loans during year and balance outstanding to subsidiaries.
- Clause (iii)(c): whether repayment schedule is stipulated and repayments regular.
- Clause (iii)(f): loans without terms or period of repayment, with amount and percentage.
- Clause (ix)(a): amount and period of default, lender-wise.
- Clause (vii)(b): disputed dues not deposited — amount, nature, forum.

CASE

- Loan: no schedule, no repayment — report under (iii)(a)(A), (iii)(c), (iii)(f).
- Default cleared before year-end still occurred in the year.

CONCLUSION

Loan: report under (iii)(a)(A), (c), (f). Default: report ₹6 crore and 95 days lender-wise under (ix)(a). Tax demand: report ₹2 crore, nature and appellate forum under (vii)(b).

[Click for detailed question »](#)

[ICAI answer »](#)

Q12 JKL Ltd — Summary Financial Statements Procedures

Ch 8 • Specialised Areas

≈ PARAM 810.150

FOCUS

- Summary FS circulated alone; high aggregation, unclear basis of preparation, limited reference to audited FS.
- Procedures for forming an opinion.

APPLIES

SA 810 — Engagements to Report on Summary Financial Statements

CONCEPT

- Evaluate disclosure of summarised nature and identification of the audited FS.
- If unaccompanied by audited FS, check they say from whom or where FS are available, or the law excusing it.
- Evaluate disclosure of applied criteria and preparation per those criteria.
- Compare summary FS with audited FS: agree or can be re-calculated.
- Evaluate purpose, necessary information and **appropriate level of aggregation** so as not misleading.
- Evaluate whether audited FS are available to users without undue difficulty.

CASE

- High aggregation, unclear basis and weak reference to audited FS are the points to test.

CONCLUSION

Perform all the SA 810 procedures above, plus any others considered necessary, as the basis for the opinion.

[Click for detailed question »](#)
[ICAI answer »](#)
Q13**Luck & Associates — Review Engagement Acceptance**

Ch 10 · Review of Financial Information

PARAM 2400.030

FOCUS

- Best Ltd. wants a review; scope limitation, unreliable information, doubtful integrity, regulatory purpose, independence concerns.

APPLIES

SRE 2400 — Engagements to Review Historical Financial Statements

CONCEPT

- Do not accept unless law requires if no **rational purpose** for the engagement.
- Not rational if significant scope limitation, or law requires an audit — a review is no substitute.
- Satisfied that a review is appropriate; else recommend audit, compilation or other service.
- Ethical requirements, including independence, must be capable of being satisfied.
- Needed information must not be likely unavailable or unreliable.

CASE

- Doubt on mgmt integrity likely to affect proper performance of review is a bar.
- Scope limitation leading to disclaimer of conclusion is a bar.

CONCLUSION

Unless required by law or regulation, Luck & Associates shall not accept the review if any of these exist: no rational purpose or review not appropriate, ethical/independence requirements not satisfiable, information unavailable or unreliable, doubt on mgmt integrity, or a scope limitation leading to disclaimer.

[Click for detailed question »](#)
[ICAI answer »](#)
Q14**ABC Ltd — Examination of Prospective Financial Information**

Ch 11 · Prospective Financial Information & Other Assurance Services

PARAM 3400.020

FOCUS

- CA B asked to examine **PFI** meant for raising finance, with wide circulation.
- Assumptions look unrealistic; historical data reliability and circulation scope unclear.

APPLIES

SAE 3400 — Examination of Prospective Financial Information

CONCEPT

- Before acceptance, consider **intended use** of the information.
- Consider whether distribution is general or limited.
- Consider nature of assumptions: best estimates or hypothetical.
- Consider elements to be included and the period covered.
- Consider extent to which reliance on historical financial information is justified.
- Agree terms of engagement through an engagement letter.

CASE

- Information is for raising finance with wide circulation; assumptions appear unrealistic, so acceptance is doubtful.

CONCLUSION

Auditor should not accept (or should withdraw) if assumptions are clearly unrealistic or PFI is inappropriate for its intended use; otherwise accept after evaluating the above factors and issuing an engagement letter.

[Click for detailed question »](#)
[ICAI answer »](#)
Q15

Nova Ltd — Remote Audit Confidentiality, Security & Data Protection

Ch 12 · Digital Auditing & Assurance

PARAM DAA.650

FOCUS

- CA Jiya's remote audit lapses: open platform access, documents left on platform, unauthorised screenshots, no VPN on public internet.

APPLIES

Digital Auditing & Assurance — Remote Audit

CONCEPT

- Restrict and secure access to the **document sharing platform**; encrypt data sent across network.
- Remove reviewed information from platform; store per archiving and data protection requirements.
- Follow laws needing extra agreements, e.g. no recording of sound/images, authorisation to use images.
- No screenshots of auditees** as audit evidence; screenshots of records only with prior authorisation of auditee.
- Use **VPN** (safe, encrypted connection) when accessing auditee's IT system.

CASE

- Unrestricted access, retained downloads, screenshots of employees and records without consent, and public connection without VPN all breach these safeguards.

CONCLUSION

CA Jiya's actions are inconsistent with confidentiality, security and data protection principles of a digital audit.

[Click for detailed question »](#)
[ICAI answer »](#)
Q16

PQR Ltd — CFS Departure and Modification of Opinion

Ch 13 · Group Audits

≈ PARAM 443.000

FOCUS

- CA Ananya audits parent and all subsidiaries; one subsidiary's figures not adjusted per standard, a **material departure**.
- Mgmt refuses correction, saying impact limited to one subsidiary.

APPLIES

Audit of CFS — parent's auditor is also auditor of all components · SA 705 — Modified Opinion

CONCEPT

- Where parent's auditor audits all components, report whether **principles and procedures for CFS** under relevant AS were followed.
 - On departure, apply **SA 705** so users are aware of the deviation.
 - Opine on true and fair view of Group's state of affairs and consolidated profit or loss.
 - Also opine on consolidated cash flow statement, where included.
- CASE**
- Single-subsidiary impact does not relieve her; she must assess materiality and pervasiveness of the unadjusted misstatement.
 - State nature of departure and its effect in the report.

CONCLUSION

She cannot ignore the departure; she should modify her opinion under SA 705 as the materiality and pervasiveness of the uncorrected misstatement warrants.

[Click for detailed question »](#)
[ICAI answer »](#)

Q17 XYZ Investments — Unregistered Type 1 NBFC Exemption

Ch 14 · Audit of Banks & NBFCs

NEW

FOCUS

- Group investment holding NBFC-BL with CoR, no public funds, no customer interface, assets ₹850 crore.
- Does it still need a CoR under the 2026 **Amendment Directions**; what exit exists?

APPLIES

RBI Act s.45-IA, 45-IC · NBFC Registration, Exemptions & SBR Amendment Directions 2026

CONCEPT

- **Unregistered Type 1 NBFC** is exempt from registration under s.45-IA and 45-IC.
- Conditions: no public funds, no customer interface, asset size below ₹1,000 crore, conscious long-term business model.
- Annual **Board resolution** confirming no public funds and no customer interface for the year.
- Prescribed disclosure in Notes to Accounts.
- Existing CoR does not lapse automatically; apply to RBI for deregistration/surrender by 31 Dec 2026.

CASE

- XYZ meets all tests: no public funds, no customer interface, ₹850 crore is below ₹1,000 crore.

CONCLUSION

XYZ is eligible for the Unregistered Type 1 NBFC exemption, subject to the prescribed conditions; its existing CoR does not lapse automatically — if it wishes to exit, it may apply to RBI for deregistration/surrender by 31 Dec 2026, subject to RBI approval.

[Click for detailed question »](#)

[ICAI answer »](#)

Q18 CAG Performance Audit — Understanding the Programme

Ch 15 · Audit of Public Sector Undertakings

PARAM 599.200

FOCUS

- Rural infrastructure programme across ministries, in parliamentary and media focus; team gathers varied sources before audit plan.
- Identify the stage and explain role of each source.

APPLIES

Performance Audit — Planning Stage

CONCEPT

- Stage is **understanding the entity/programme**, the starting point of planning a performance audit.
- **Entity documents**: policy files, annual reports, budget, minutes, internal audit reports, MIS, RTI material.
- **Legislative documents**: parliamentary questions and debates, PAC, COPU and Estimates Committee reports.
- **Academic research** and independent evaluations; **past audits** as a major source.
- **Media coverage** and **special focus groups** such as Audit Advisory Committee, World Bank, RBI, NGOs.

CASE

- Scenario's internal records, legislative discussions, committee reports, prior findings, research and stakeholder inputs map to these sources.

CONCLUSION

The scenario is the understanding-the-entity stage; the varied sources together build an in-depth understanding for effective audit planning.

[Click for detailed question »](#)

[ICAI answer »](#)

Q19 Green Limited — Climate Risk Disclosures and Auditor Duties

Ch 18 · SDG & ESG Assurance

≈ PARAM SDG.500

FOCUS

- EV maker: environmental litigation, sustainability claims in press releases, climate risks in Board's Report but not in FS.
- Auditor's responsibilities while completing the audit.

APPLIES**SA 720 — Other Information · SA 706 — EOM · Climate-related risks in audit****CONCEPT**

- Auditor obtains reasonable assurance that FS as a whole are free from material misstatement.
- Include **climate-related risks** in understanding the entity and their audit relevance.
- Determine whether relevant climate information is disclosed in FS per the applicable framework (Ind AS/AS).
- Consider an **Emphasis of Matter** for disclosures fundamental to users' understanding.
- Read other information for consistency with FS under **SA 720**.

CASE

- Read Board's Report, press releases and investor presentations for consistency with FS; absence of climate disclosures in FS needs evaluation.

CONCLUSION

Auditor evaluates FS disclosure first, uses EOM if warranted, and reads other information per SA 720; the report must still follow applicable auditing standards.

[Click for detailed question »](#)
[ICAI answer »](#)
Q20a**CA Anshul — Sharing Working Papers with Management**

Ch 19 · Professional Ethics & Liabilities of Auditors

≈ PARAM 738.000

FOCUS

- MD of Rise Ltd. asks statutory auditor to share audit working papers and internal findings on litigation, investigations and tax disputes for restructuring.

APPLIES**CA Act 1949 — Second Schedule, Part I, Clause (1) · Confidentiality****CONCEPT**

- Disclosing information acquired in engagement to anyone other than client without **consent** (or law) is professional misconduct.
 - Duty of non-disclosure continues after the assignment ends.
 - Request or initiative must come from the client; for a company, consent from competent authority such as authorised MD or Board resolution.
 - Auditor need not give client access to **working papers**; may share portions or extracts at his discretion.
 - Sharing working papers differs from sharing information; information only after client's consent.
- CASE**
- MD's request must be validly authorised before any sharing.

CONCLUSION

CA Anshul must not share working papers or confidential information with the MD without proper consent through a competent authority.

[Click for detailed question »](#)
[ICAI answer »](#)
Q20b**CA Raman — Chartered Accountant & Advocate Designation**

Ch 19 · Professional Ethics & Liabilities of Auditors

PARAM 691.000

FOCUS

- CA in practice, also enrolled advocate, files vakalatnama and uses "Chartered Accountant & Advocate" on visiting card and letterhead for advocacy.

APPLIES**CA Act 1949 — First Schedule, Part I, Clause (7)****CONCEPT**

- Clause (7): misconduct to advertise attainments or use designation other than '**Chartered Accountant**' on documents, cards, letterheads, boards.
- Exceptions: university degree recognised in India, or title of membership of a recognised institution.
- Member may practise as advocate with **Bar Council permission**.
- In advocacy matters, do not use designation 'Chartered Accountant'.
- In other matters use 'Chartered Accountant', but never 'Chartered Accountant' and 'Advocate' simultaneously.

CASE

- Combined designation used in High Court filing, visiting card and letterhead for advocacy practice.

CONCLUSION

CA Raman is guilty of professional misconduct under Clause (7) of Part I of the First Schedule.

[Click for detailed question »](#)[ICAI answer »](#)



Part I Case Scenario based MCQs

CASE SCENARIO 1

Vistara Lifesciences – Development Expenditure, Consultancy Payment & EQCR

[Click for full case »](#)

Listed pharma company capitalises ₹96 crore development cost; team lacks pharma expertise, documents delayed six weeks, unusual ₹50 lakh year-end consultancy payment to employee-address vendor, and EQCR partner doing unrelated GST work. — MCQ 1–5

MCQ 1

Vistara – Reliance on Management for Development Expenditure

Ch 5 · Audit Evidence

≈ PARAM 127.610

QUESTION

The team has no pharma expertise and the Finance Director says internal scientists already assessed feasibility of the capitalised ₹96 crore development cost. What should the auditor do?

OPTIONS

Options range from relying on management, to assessing team competence and using an expert where needed, to mandatory external expert always, to relying on Board approval.

ANSWER

(b) Capitalisation rests on significant mgmt judgement, so the auditor must assess **team competence** and, where necessary, involve an **expert** instead of relying solely on mgmt. An expert is not required in every R&D audit, and Board approval or mgmt's own assertion is no substitute for audit evidence.

APPLIES

SA 220 · SA 620 · SQC 1

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 2

Vistara – Six-Week Documentation Delay

Ch 6 · Completion & Review

≈ PARAM 24.050

QUESTION

Clinical-trial and regulatory documents arrived six weeks after request; the partner decided not to tell TCWG since they came before audit completion. How should the delay be viewed?

OPTIONS

Options test whether late-but-received documents are irrelevant, communicable only if opinion is modified, a significant difficulty to communicate, or a purely mgmt matter.

ANSWER

(c) SA 260 — a **significant delay** in mgmt providing required information is a **significant difficulty** encountered during the audit and may need to be communicated to TCWG. Eventual receipt does not make it irrelevant, and communication is not limited to cases of modified opinion.

APPLIES

SA 260

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 3

Professional Scepticism on Unusual Consultancy Payment

Ch 2 · General Auditing Principles & Auditors' Responsibilities

≈ PARAM 17.000

QUESTION

A ₹50 lakh payment to a new consultancy entity two days before year-end, with a vague invoice, is vouched for only by the CFO. What does professional scepticism require?

OPTIONS

Options contrast accepting the CFO's word, ignoring it as below materiality, presuming fraud, and keeping a questioning mind to evaluate the unusual features.

ANSWER

(d) SA 200 — **professional scepticism** means a questioning mind and critical evaluation of evidence. Unusual features (new vendor, year-end timing, vague invoice) need corroboration. CFO's word is not enough, and presuming fraud automatically is equally wrong.

APPLIES

SA 200 · SA 240

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 4****Consultancy Vendor at Employee's Residential Address**

Ch 2 · General Auditing Principles & Auditors' Responsibilities

≈ PARAM 17.000

QUESTION

The consultancy vendor's registered address is the residential address of a finance department employee. What should this primarily prompt the auditor to do?

OPTIONS

Options: consider related party or fictitious vendor and extend procedures, ignore it, qualify the opinion immediately, or rely only on a CFO representation.

ANSWER

(a) This is a **fraud / related-party red flag**: consider a possible related party, fictitious vendor or unusual relationship and perform further procedures. It cannot be ignored, does not justify an immediate qualification, and a mere CFO representation is not adequate evidence.

APPLIES

SA 240 · SA 550

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 5****EQCR with Unrelated Internal GST Work**

Ch 1 · Quality Control

≈ PARAM 127.660

QUESTION

CA Nitin, a senior partner outside the engagement team, is EQCR for the audit and separately helped the firm prepare its own GST returns. Which statement is most appropriate?

OPTIONS

Options test automatic disqualification, case-by-case evaluation, only-engagement-partner myth, and a no-other-function-during-the-year myth.

ANSWER

(b) Unrelated work for the firm does **not automatically disqualify** him. EQCR eligibility turns on **objectivity** and competence, assessed for the engagement; he must not be on the team or have made audit decisions. There is no bar on all other functions for the year.

APPLIES

SQC 1 · SA 220

[Click for detailed question »](#)[ICAI answer »](#)**CASE SCENARIO 2****CA Hitesh — Empanelment Form, Digital Signature & Discipline**[Click for full case »](#)

CA Hitesh shows derivative income as business income in the bank-audit empanelment form and digitally signs a director's resignation form with a copied signature; misconduct, disciplinary authority and punishment follow. — MCQ 6–9

MCQ 6**CA Hitesh — Derivative Income as Business Income**

Ch 19 · Professional Ethics & Liabilities of Auditors

≈ PARAM 713.000

QUESTION

CA Hitesh's tax return shows currency and commodity derivatives income as business income, as required for the bank-audit empanelment form. Is he guilty, and under which clause?

OPTIONS

Options pair guilty or not with different clauses: Cl. 11 or Cl. 6 of Part I First Schedule, or a Second Schedule clause.

ANSWER

(a) Trading in derivatives as a business shows he is engaged in a **business or occupation** other than the profession without Council permission. This is misconduct under **Clause (11) of Part I of the First Schedule**. Clause 6 relates to solicitation, not this.

APPLIES

CA Act 1949 — First Schedule Part I Cl. 11

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 7****CA Hitesh — Digitally Signed Resignation Form**

Ch 19 · Professional Ethics & Liabilities of Auditors

PARAM 756.500

QUESTION

CA Hitesh digitally signed and uploaded a director's resignation form without verifying the authenticity of the director's signature, which had been copied and pasted. Which clause applies?

OPTIONS

Options mix Second Schedule Cl. 2 and Cl. 7 with First Schedule Cl. 5 and Cl. 7; the trap is picking the schedule and clause number.

ANSWER

(b) Signing without **verifying authenticity** shows lack of due diligence and gross negligence in professional duties. This is misconduct under **Clause (7) of Part I of the Second Schedule**. First Schedule clauses cover other acts and do not fit.

APPLIES

CA Act 1949 — Second Schedule Part I Cl. 7

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 8****Authority for CA Hitesh's Disciplinary Proceedings**

Ch 19 · Professional Ethics & Liabilities of Auditors

≈ PARAM 770.500

QUESTION

CA Hitesh's misconduct falls under both the First Schedule (Cl. 11) and the Second Schedule (Cl. 7). Before which authority is the case placed?

OPTIONS

Options: High Court, Board of Discipline, Disciplinary Committee, Appellate Authority; the trap is Board of Discipline versus Disciplinary Committee.

ANSWER

(c) Misconduct covered by the **First as well as the Second Schedule** goes before the **Disciplinary Committee**. The Board of Discipline hears only First Schedule matters, and the Appellate Authority hears appeals, not original cases.

APPLIES

CA Act 1949 — Sec. 21A · 21B

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 9****Minimum Punishment for CA Hitesh's Misconduct**

Ch 19 · Professional Ethics & Liabilities of Auditors

≈ PARAM 780.100

QUESTION

What is the minimum punishment that could have been imposed on CA Hitesh under the Chartered Accountants Act, 1949?

OPTIONS

Options list reprimand, removal of name with fine up to ₹5,00,000, suspension up to 3 months, and warning with fine; the trap is the mildest listed punishment.

ANSWER

(a) The Disciplinary Committee may reprimand, remove the name permanently or for a period, and impose fine up to ₹5,00,000. The **minimum** punishment is to **reprimand** the member; the other options are heavier or not provided in that form.

APPLIES

CA Act 1949 — Sec. 21B

[Click for detailed question »](#)[ICAI answer »](#)

CASE SCENARIO 3

Campaign Textiles — Confirmations, Misstatements & Customer Insolvency

[Click for full case »](#)

Textile exporter: confirmation follow-up routed via client's accounts team, three uncorrected misstatements (₹35L, ₹20L, ₹18L; PM ₹70L), and a major customer's insolvency after year-end with management refusing a provision. — MCQ 10–14

MCQ 10

Client-Routed Confirmation Follow-up

Ch 5 • Audit Evidence

≈ PARAM 63.500

QUESTION

For 15 non-responding customers, the audit senior asked the client's accounts team to follow up and pass on responses. Is this acceptable under SA 505?

OPTIONS

Options test free delegation of follow-up, relationship-based routing, and the correct rule that the auditor controls the process, versus an invented 25% limit.

ANSWER

(c) SA 505 requires the **auditor to maintain control** over the confirmation process: selecting, sending, and receiving responses. Routing follow-up through the client **compromises reliability** of the evidence. The 25% limit is invented, and better client relationships are no justification.

APPLIES

SA 505 • SA 500

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 11

Alternative Procedures for Uncontrolled Confirmations

Ch 5 • Audit Evidence

≈ PARAM 63.500

QUESTION

What should the auditor do for the 15 balances where the confirmation process was not appropriately controlled?

OPTIONS

Options: alternative procedures, accepting later client-routed responses, provisioning for non-response, or excluding the balances and relying on 25 confirmations.

ANSWER

(a) Responses via the client are unreliable evidence, so the auditor must perform **alternative audit procedures** such as subsequent receipts, shipping documents and sales invoices. Accepting client-routed replies, booking a provision, or dropping the balances does not give sufficient appropriate evidence.

APPLIES

SA 505 • SA 500

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 12

Accumulating Three Uncorrected Misstatements

Ch 6 • Completion & Review

≈ PARAM 55.500

QUESTION

Three uncorrected misstatements of ₹35 lakh, ₹20 lakh and ₹18 lakh were each judged immaterial and left out of the summary; performance materiality is ₹70 lakh. How to treat them?

OPTIONS

Options: ignore as individually immaterial, accumulate unless clearly trivial and evaluate individually and in aggregate, accumulate only same-class items, or never aggregate.

ANSWER

(b) SA 450 — accumulate all misstatements **other than clearly trivial** ones and evaluate them **individually and in aggregate**. Individually immaterial is not clearly trivial, and different heads do not bar aggregation. Together they are ₹73 lakh, above PM of ₹70 lakh.

APPLIES

SA 450 • SA 320

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 13

Customer Insolvency as Adjusting Subsequent Event

QUESTION

A customer holding about 15% of receivables filed for insolvency after year-end, due to a liquidity crisis existing for months. Management refuses to provide. How is it treated under SA 560?

OPTIONS

Options: non-adjusting events (always post year-end or disclosure only), or adjusting event where the auditor requests adjustment; the trap is filing date versus underlying condition.

ANSWER

(d) The **liquidity crisis existed at the reporting date**, so the insolvency gives evidence of a condition at year-end: an **adjusting event**. Mgmt should adjust the provision; the filing date alone is not decisive. The auditor must ask for the adjustment, not merely accept disclosure.

APPLIES

SA 560 • SA 450

[Click for detailed question »](#)

[ICAI answer »](#)

MCQ 14**Opinion When Management Refuses Material Adjustment**

Ch 7 • Reporting

≈ PARAM 119.400

QUESTION

Management refuses the required adjustment and the auditor concludes the resulting misstatement is material but not pervasive. Which opinion is expressed?

OPTIONS

Options: qualified, adverse, disclaimer, or unmodified with an EOM; the trap is material versus pervasive.

ANSWER

(a) A misstatement that is **material but not pervasive** and left uncorrected calls for a **qualified opinion** ('except for'). Adverse needs pervasiveness, disclaimer relates to inability to obtain evidence, and an EOM cannot cure a material misstatement.

APPLIES

SA 705

[Click for detailed question »](#)

[ICAI answer »](#)

CASE SCENARIO 4**Vertex Consumer Holdings — Forensic, BRSR, Remote Audit, Consolidation & Referral Fee**

[Click for full case »](#)

Listed group with suspected inventory inflation, BRSR lending-screening lapse, unauthorised screenshot in remote audit, un-eliminated ₹15 crore intra-group loan, and a partner's undisclosed referral fee. — MCQ 15–19

MCQ 15**Forensic Investigation vs Statutory Audit Objective**

Ch 17 • Due Diligence, Investigation & Forensic Accounting

≈ PARAM 629.000

QUESTION

The Board hired a forensic accountant to investigate only the alleged inventory inflation, parallel to the statutory audit. How do their objectives differ?

OPTIONS

Options: identical objectives, audit never establishing facts, forensic replacing SA 240 procedures, or forensic targeting the allegation while audit gives overall reasonable assurance.

ANSWER

(d) A forensic review is **targeted** at the facts of the specific allegation, whereas the statutory audit keeps its objective of **reasonable assurance** on the FS as a whole under SA 240. The forensic work does not replace the auditor's SA 240 procedures.

APPLIES

SA 240 • Forensic Accounting

[Click for detailed question »](#)

[ICAI answer »](#)

MCQ 16

BRSR Disclosure Inconsistency and Other Information

Ch 7 · Reporting

≈ PARAM 128.150

QUESTION

BRSR claims all loans are screened for child labour, but screening lapsed for six months as the compliance officer post was vacant. What must the statutory auditor consider?

OPTIONS

Options: nothing as BRSR is outside the audit, SA 720 other information plus SA 250 control issue, immediate opinion modification, or EOM as sufficient.

ANSWER

(b) Evaluate the inconsistency as '**other information**' under **SA 720** and separately assess the screening lapse as a possible **SA 250** compliance or control issue with FS effects. BRSR is not entirely outside scope, and not every inconsistency is automatically a material misstatement.

APPLIES

SA 720 · SA 250

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 17

Unauthorised Screenshot in Remote Audit

Ch 12 · Digital Auditing & Assurance

≈ PARAM DAA.650

QUESTION

An audit team member screenshotted a confidential MIS dashboard during a video call without authorisation and saved it on a personal laptop. What are the concerns?

OPTIONS

Options: confidentiality and data-protection breach on both capture and storage, versus free capture, storage-only concern, or authorisation-only concern.

ANSWER

(a) Taking a screenshot **without authorisation** and storing it outside the firm's **secured audit documentation system** breaches **confidentiality** and data-protection principles in remote audits. Both the capture and the personal-laptop storage are concerns; a password does not cure the lack of authorisation.

APPLIES

Remote Audit · Code of Ethics — Confidentiality

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 18

Un-eliminated Intra-group Loan on Consolidation

Ch 13 · Group Audits

≈ PARAM 119.400

QUESTION

A ₹15 crore parent-to-NBFC subsidiary loan is not eliminated on consolidation, overstating assets and liabilities by ₹15 crore; the auditor deems it material but not pervasive and mgmt refuses. What now?

OPTIONS

Options: no adjustment as profit unaffected, disclaimer, qualified opinion under SA 705, or the auditor adjusting the FS directly.

ANSWER

(c) Failure to eliminate intra-group balances is a **material but not pervasive misstatement**, so on mgmt's refusal the auditor issues a **qualified opinion** under SA 705. Nil profit effect is no defence, it is not a scope limitation for a disclaimer, and the auditor cannot adjust FS.

APPLIES

SA 705 · SA 600 · Ind AS 110

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 19

Referral Fee from Investment Bank

Ch 19 • Professional Ethics & Liabilities of Auditors

≈ PARAM 729.000

QUESTION

A firm's senior partner, not on the engagement team, accepted an undisclosed referral fee from an investment bank for recommending the audit client. Which statement is correct under the Act and Code of Ethics?

OPTIONS

Options: purely commercial and permissible, self-interest threat breaching commission restrictions, permissible if under 10% of audit fee, or wrong only due to seniority.

ANSWER

(b) Non-disclosure to the Audit Committee creates a **self-interest threat** and breaches the Code's restrictions on **commission arrangements**; disclosure, safeguards or declining is required. It is not outside the Code, there is no 10% safe limit, and seniority is irrelevant.

APPLIES

Code of Ethics — Commissions & Referral Fees • CA Act First Schedule

[Click for detailed question »](#)
[ICAI answer »](#)

MCQ 20

CAG Audit of Flat Misclassification and Water Charges

Ch 15 • Audit of Public Sector Undertakings

PARAM 597.900

QUESTION

CAG auditors found buildings misclassified as flats because the database lacked a building-area field, causing short-collection of water charges. Which audit is this, and to whom is the report submitted?

OPTIONS

Options pair propriety, performance or compliance audit with report to the State Legislature or Central Government.

ANSWER

(d) Checking whether the department followed the **applicable State law** is a **compliance audit**. For a State Government department the CAG's report goes to the **State Legislature** (via the Governor), not to the Central Government.

APPLIES

CAG Audit — Compliance Audit

[Click for detailed question »](#)
[ICAI answer »](#)

MCQ 21

LMN Ltd — Fines, Cash Payments and Regulatory Notices

Ch 2 • General Auditing Principles & Auditors' Responsibilities

≈ PARAM 22.000

QUESTION

LMN Ltd shows significant fines and penalties, unusual cash payments, undocumented payments to government employees, regulatory notices and heavy legal fees. What should the engagement partner primarily consider?

OPTIONS

Options: weak internal controls, non-compliance with laws, deficient accounting system, or going-concern doubt.

ANSWER

(b) These are classic **indicators of non-compliance** with laws and regulations, so CA Neha should primarily consider possible non-compliance by LMN and **investigate further**. They point to legal breach rather than mainly controls, accounting system or going concern.

APPLIES

SA 250

[Click for detailed question »](#)
[ICAI answer »](#)

MCQ 22

Direct Assistance from Internal Audit Team

Ch 16 • Internal Audit

≈ PARAM 103.300

QUESTION

CA Karan plans to use XYZ Ltd's internal audit team to verify wages at all factories. What must he obtain before using their direct assistance under SA 610?

OPTIONS

Options: written agreement from mgmt only, from the internal auditor only, both, or no written agreement after mere discussion.

ANSWER

(c) Before **direct assistance**, the auditor needs a **written agreement from mgmt** that internal auditors may follow his instructions and mgmt will not intervene, and a **written agreement from the internal auditors** to keep matters confidential. So both (A) and (B).

APPLIES

SA 610

[Click for detailed question »](#)
[ICAI answer »](#)

MCQ 23

Continental Foods — Revision of Materiality

Ch 4 • Materiality, Risk Assessment & Internal Control

≈ PARAM 55.500

QUESTION

Materiality of ₹40 lakh was set on budgeted revenue; actual revenue turned out substantially lower after a major contract ended, yet the team kept ₹40 lakh. What is the position under SA 320?

OPTIONS

Options: no revision needed once documented and communicated, versus revising materiality if new information or changed circumstances would have led to a different amount.

ANSWER

(b) SA 320 — materiality must be **revised as the audit progresses** if the auditor becomes aware of information that would have led to a **different amount** initially, such as a significant change in circumstances. Having documented or communicated the planning figure does not freeze it.

APPLIES

SA 320

[Click for detailed question »](#)
[ICAI answer »](#)

Part II Descriptive Questions

Q1a

Nest & Co — Monitoring Deficiencies under SQC 1

Ch 1 • Quality Control

NEW

5 Marks

FOCUS

- Firm skipped periodic inspections, never updated policies, gave monitoring to an inexperienced person, ignored complaints and did no remedial follow-up.

APPLIES

SQC 1 — Monitoring of firm's quality control system

CONCEPT

- Policies must be relevant, adequate, operating effectively and complied with in practice.
- Includes **periodic inspection** of a selection of completed engagements.
- Evaluate whether system is appropriately designed and effectively implemented.
- Reflect new developments in standards, legal and regulatory requirements in policies.
- Assign monitoring to a partner/person with sufficient experience and **authority**.
- Deal with complaints and allegations; take **remedial action** and act on deficiencies.

CASE

- Every one of these requirements was breached: no inspections, no policy update, weak monitor, complaints uninvestigated, no follow-up.

CONCLUSION

Monitoring process is not appropriate; Nest & Co. has not complied with SQC 1 and must strengthen it to identify, investigate and address deficiencies.

[Click for detailed question »](#)
[ICAI answer »](#)

Q1b

Suryodaya Industries — Goodwill KAM and Fire Emphasis of Matter

Ch 7 • Reporting

≈ PARAM 120.200

5 Marks

FOCUS

- Two matters: goodwill impairment with heavy judgment and expert use; post-year-end fire, disclosed, non-adjusting. How is each reported?

APPLIES

SA 701 — Key Audit Matters • SA 706 — EOM/OMP

CONCEPT

- KAMs** are matters of most significance in the audit, selected from matters communicated with TCWG.
- Considered: areas of higher assessed risk, significant auditor judgment, significant events or transactions.
- EOM** draws attention to a matter appropriately presented or disclosed that is fundamental to users' understanding.
- EOM does not modify the opinion.

CASE

- Goodwill: high judgment, significant audit effort, expert involved, discussed with TCWG - likely KAM; explain why and how addressed.
- Fire: non-adjusting event, properly disclosed, fundamental - EOM with cross-reference to disclosure.

CONCLUSION

Goodwill impairment goes in the KAM section (SA 701); the fire goes in an EOM paragraph (SA 706). An EOM does not by itself make a matter a KAM.

[Click for detailed question »](#)
[ICAI answer »](#)

Q1c

LMN Ltd — Misstatement in Other Information After Auditor's Report

Ch 7 • Reporting

≈ PARAM 128.200

4 Marks

FOCUS

- Report dated 20 May 2026; annual report published 30 June; on 5 July auditor finds incorrect plant-revenue statement in other information.

APPLIES

SA 720 (Revised) — Other Information

CONCEPT

- Auditor reads other information; material inconsistency may signal misstatement of FS or of the other information.
- If material misstatement exists in other information obtained **after the date of the auditor's report**:
- If corrected - perform the procedures necessary in the circumstances.
- If not corrected after communicating with TCWG - take appropriate action considering legal rights and obligations to bring it to users' attention.

CASE

- Plant commissioned April 2026 cannot have contributed to FY 2025-26 revenue - evaluate as a material misstatement of other information.
- Discuss with mgmt and request correction.

CONCLUSION

If mgmt refuses to correct, RST & Co. should communicate to TCWG and take further appropriate action as required by SA 720.

[Click for detailed question »](#)
[ICAI answer »](#)

Q2a

Aarav & Associates — Tax Audit Assignment Limit

Ch 19 • Professional Ethics & Liabilities of Auditors

≈ PARAM 776.400

5 Marks

FOCUS

- Do the three partners comply with the limit of 60? Can it be shared? Are 44AD/44AE audits and revised reports counted?

APPLIES

Council General Guidelines, 2008 — Chapter VI (Tax Audit) • Sec 44AB

CONCEPT

- Limit of **60** per member per financial year.
- Aggregate of individual capacity plus as partner of firm(s).
- Limit cannot be distributed or shared between partners.
- Not applicable to audits under sec 44AB clauses (c), (d), (e) - persons covered under 44AE, 44ADA, 44AD.
- **Revised** tax audit report is not counted.

CASE

- Aarav: $20 + 42 = 62$ - non-compliance.
- Bhavna: $22 + 30 = 52$ - complied.
- Chirag: $12 + 45 = 57$ - complied.

CONCLUSION

Aarav exceeded the limit; Bhavna and Chirag complied. Aarav's sharing contention and Bhavna's inclusion of 44AE/44AD are both wrong; revised reports are not counted.

[Click for detailed question »](#)
[ICAI answer »](#)
Q2b**Estage Logistics — Going Concern Evaluation**

Ch 6 · Completion & Review

≈ PARAM 90.050

5 Marks

FOCUS

- Freight volumes down, debt covenant breached, bankers reserve right to recall; plan is uncontracted sale and preliminary renegotiation. Evaluate and report.

APPLIES**SA 570 — Going Concern****CONCEPT**

- Evaluate whether mgmt's use of going concern basis is appropriate and whether a **material uncertainty** exists.
- Evaluate mgmt's plans: feasibility, timing and likely effectiveness; obtain S&A evidence.
- If MU exists, check adequate disclosure of the uncertainty and events/conditions.
- With adequate disclosure - separate section **Material Uncertainty Related to Going Concern**.

CASE

- Volume decline, covenant breach and right to recall are events casting significant doubt.
- Sale not contracted and loan talks preliminary - cannot rely merely on mgmt's plan.

CONCLUSION

If MU is concluded and adequately disclosed, unmodified opinion with a separate MU Related to Going Concern section drawing attention to the disclosure.

[Click for detailed question »](#)
[ICAI answer »](#)
Q2c**Moby Manufacturing — Risks Arising from Use of IT**

Ch 12 · Digital Auditing & Assurance

≈ PARAM DAA.920

4 Marks

FOCUS

- Four observations: direct live changes to payroll, mixed inventory software versions, manual overrides without review, ransomware with weak backups.

APPLIES**SA 315 — Risks arising from use of IT · IT risks in audit****CONCEPT**

- Risk of **unauthorised changes** to IT applications/environment.
- System integration and compatibility risk.
- Risk of inappropriate **manual intervention**.
- Risk of data loss or data corruption.

CASE

- Payroll changes without approval/testing - unauthorised changes.
- Old and new inventory versions - errors in data transfer.
- Overrides without review or documentation - errors, unauthorised transactions.
- Ransomware plus inadequate backup - data loss; fraud, cyber and continuity exposure.

CONCLUSION CA Neha should consider these four IT risks while planning the audit and responding to them.

[Click for detailed question »](#)

[ICAI answer »](#)

Q3a Grand Pharmaceuticals — Internal Check Deficiencies

Ch 4 • Materiality, Risk Assessment & Internal Control

PARAM 171.500

5 Marks

FOCUS

- Sales Manager with same customers 8 years and credit/write-off powers; Stores Supervisor with custody and records; Finance Manager prepares and approves payments.

APPLIES

Internal check principles • Control risk assessment (SA 315)

CONCEPT

- **Rotation of duties** reduces collusion, manipulation and concealment.
- Custody of assets should be separated from recording.
- No single person should control an important financial operation; independent review/approval needed.
- Independent physical verification is a check on records.

CASE

- Sales: no rotation, credit limit and write-off in one hand - receivable manipulation.
- Stores: custody plus records, no verification for 3 years - pilferage.
- Payments: preparer is approver - fraudulent payments.

CONCLUSION

Sales, inventory and payments carry high inherent risk; the deficiencies mean controls may not prevent/detect misstatement, so control risk is assessed higher, needing more audit procedures.

[Click for detailed question »](#)

[ICAI answer »](#)

Q3b Alpha, Beta, Gamma — NBFC Registration under Amendment Directions 2026

Ch 14 • Audit of Banks & NBFCs

NEW

5 Marks

FOCUS

- Which of three NBFCs must hold a Certificate of Registration under the Registration Amendment Directions 2026 (effective 1 July 2026)? Classify Unregistered Type I, Type I, Type II.

APPLIES

RBI NBFC Registration Amendment Directions, 2026 • RBI Act Secs 45-IA, 45-IC

CONCEPT

- **Unregistered Type I**: no public funds, no customer interface, assets below ₹1,000 crore - exempt from Secs 45-IA and 45-IC, subject to conditions.
- Existing NBFCs meeting criteria may apply for deregistration by 31 Dec 2026.
- **Type I** (registered): no public funds, no customer interface, assets ₹1,000 crore or above.
- **Type II** (registered): avails public funds or has customer interface, any size.

CASE

- Alpha: ₹850 crore, no public funds/interface - qualifies as Unregistered Type I.
- Beta: exactly ₹1,000 crore - not below threshold.
- Gamma: public funds and customer interface - Type II despite ₹300 crore.

CONCLUSION

Alpha satisfies the basic conditions for Unregistered Type I exemption, subject to the other prescribed conditions; Beta (exactly ₹1,000 crore) must be registered as Type I; Gamma must be registered as Type II.

[Click for detailed question »](#)

[ICAI answer »](#)

Q3c Jam Ltd — Acceptance as Principal Auditor

Ch 13 • Group Audits

PARAM 100.400

4 Marks

FOCUS

- Krishiv & Associates to be principal auditor of Jam Ltd with 5 business units and 40 branches - what to consider before accepting?

APPLIES

SA 600 — Using the Work of Another Auditor (Principal Auditor)

CONCEPT

- Consider whether own participation is sufficient to act as **principal auditor**.
- Materiality of the portion of financial information the principal auditor audits.
- Principal auditor's degree of knowledge of the business of the components.
- Risk of material misstatements in components audited by the other auditor.
- Additional procedures under SA resulting in significant participation in such audit.

CONCLUSION

Accept as principal auditor only if these four considerations show sufficient own participation in the audit of Jam Ltd.

[Click for detailed question »](#)
[ICAI answer »](#)
Q4a**Star Textiles – Contractor Labour Practices & ESG Social Pillar**

Ch 18 · SDG & ESG Assurance

≈ PARAM SDG.085

5 Marks

FOCUS

- Which **ESG pillar** is involved when a cheaper contractor with labour-violation allegations is appointed without checks.
- Whether the contractor's independence makes its practices irrelevant for ESG.

APPLIES

ESG framework · Social pillar

CONCEPT

- **Social pillar** covers labour practices, employee welfare, working conditions and human rights.
- Scope extends to contractors, suppliers and other business relationships, not only own employees.
- Contractor being an independent entity does not make its labour practices irrelevant.
- Entity should do due diligence, set ESG requirements and monitor contractors.

CASE

- Concern 1 - **labour and human-rights risk**: cost preferred over due diligence; unsafe conditions, unpaid statutory benefits, undocumented workers.
- Concern 2 - **supply-chain and reputational risk**: allegations known yet no assessment; ESG disclosure of responsible supply chain may be misleading.

CONCLUSION

Social pillar. Treating the contractor's practices as irrelevant is inconsistent with a comprehensive Social-dimension assessment.

[Click for detailed question »](#)
[ICAI answer »](#)
Q4b**Contingent and Percentage Audit Fee Permissibility**

Ch 19 · Professional Ethics & Liabilities of Auditors

≈ PARAM 709.500

5 Marks

FOCUS

- Fixed audit fee plus 2% of profit increase from audit adjustments for XYZ Ltd.
- Success-based fee for litigation support to a non-audit client ABC Ltd.

APPLIES

CA Act 1949 First Schedule Part I Cl (10) · Regulation 192 CA Regulations 1988

CONCEPT

- **Clause (10) Part I First Schedule**: fees based on percentage of profits or contingent on findings/results = misconduct.
- Exceptions only as permitted by the Regulations.
- **Regulation 192** restricts percentage-of-profit and contingent fees, subject to prescribed exceptions.

CASE

- XYZ Ltd: fixed Rs 8 lakh fee is fine; the extra 2% of profit increase depends on audit results, so it is prohibited.
- ABC Ltd: litigation support is a non-assurance service for a non-audit client, so a contingent fee falls in the Reg 192 exception.

CONCLUSION

XYZ additional fee not permissible (Cl 10 read with Reg 192). ABC contingent fee permissible, subject to the prescribed conditions.

[Click for detailed question »](#)
[ICAI answer »](#)

Q4c

Sky Infrastructure — Examination of Prospective Financial Information

Ch 11 • Prospective Financial Information & Other Assurance Services

PARAM 3400.060

4 Marks

FOCUS

- PFI for a bid assumes zero material-cost rise vs 6-8% forecast, and two unwon contracts.
- Asks duties of the auditor examining PFI.

APPLIES

SAE 3400 — Examination of Prospective Financial Information

CONCEPT

- Obtain S&A evidence that **best-estimate assumptions** are not unreasonable; hypothetical assumptions are consistent with purpose.
- PFI is properly prepared on the basis of the assumptions.
- PFI is properly presented; material assumptions adequately disclosed, stating best-estimate or hypothetical.
- PFI is consistent with historical financial statements using appropriate accounting principles.
- Apply principles of other SAs to the extent practicable.

CONCLUSION

CA Jigar must test the four SAE 3400 points; zero cost inflation and unwon contracts challenge the reasonableness of assumptions.

[Click for detailed question »](#)
[ICAI answer »](#)

Q5a

Solstice Textiles — Unrecorded Fixed Deposit Confirmed by Bank

Ch 5 • Audit Evidence

NEW

5 Marks

FOCUS

- Bank confirms Rs 2 crore FD not in books or BRS; Finance Manager says it belongs to a group entity (PAN misused).
- Can mgmt's explanation be accepted without further procedures?

APPLIES

SA 505 • SA 500 • SA 550 • SA 240 • SA 705

CONCEPT

- Confirmation differing from entity records is an **exception** the auditor must investigate (SA 505).
- Mgmt's uncorroborated explanation cannot be accepted.
- Obtain bank confirmation on account holder and ownership; examine KYC/account-opening documents.
- Consider undisclosed **related party** (SA 550) and fraud or mgmt override risk (SA 240).

CASE

- Verify why Solstice's PAN was used and test completeness of bank balances.
- If unresolved, assess effect on evidence sufficiency and report under SA 705, if applicable.

CONCLUSION

Do not accept the explanation; perform additional procedures, and consider SA 705 implications if the matter stays unresolved.

[Click for detailed question »](#)
[ICAI answer »](#)

Q5b

Vega Insurance — IBNR Reserve and Actuary's Work

Ch 5 • Audit Evidence

≈ PARAM 58.000

5 Marks

FOCUS

- Team relied on the actuary's certified IBNR amount without evaluating competence, understanding the work or testing assumptions, citing deadline.

APPLIES

SA 500 — Audit Evidence (mgmt's expert) • SA 620

CONCEPT

- Where evidence uses a **management's expert**, evaluate competence, capabilities and objectivity.
- Obtain an understanding of the expert's work.
- Evaluate appropriateness of the work as audit evidence: findings, consistency, assumptions, methods and source data.

CASE

- IBNR is material with significant estimation uncertainty, so the actuary's work is significant.
- A certificate alone is not enough; deadline pressure does not relieve compliance.
- If evidence is insufficient, perform more procedures or use an auditor's expert (SA 620).

CONCLUSION

The approach breaches SA 500; the required evaluation must be done before relying on the actuary.

[Click for detailed question »](#)
[ICAI answer »](#)
Q5c**CA Rudra — Management Consultancy Assignment**

Ch 19 • Professional Ethics & Liabilities of Auditors

≈ PARAM 654.000

4 Marks

FOCUS

- CA Rudra reviews Jin Ltd's organisation structure, drafts job descriptions, evaluates workload, designs incentive scheme; not its auditor.

APPLIES

CA Act 1949 Section 2(2)(iv) • Council resolution on Management Consultancy and Other Services

CONCEPT

- Council resolution permits a CA in practice to render the entire range of **Management Consultancy and Other Services**.
- Includes organisation structure, job-description, job evaluation, workload evaluation and executive/wage incentive plans.

CASE

- All services requested by Jin Ltd fall within this permissible scope.

CONCLUSION

CA Rudra may accept the assignment; no professional misconduct.

[Click for detailed question »](#)
[ICAI answer »](#)
Q6a**KaM (P) Ltd — Opening Accounts Receivable in First Audit**

Ch 5 • Audit Evidence

PARAM 66.100

5 Marks

FOCUS

- First-year auditor skipped receivables of Rs 230 lakhs brought forward, relying on mgmt's word of no receipts or credits and the predecessor's audit.

APPLIES

SA 510 — Initial Audit Engagements, Opening Balances • SA 500 • SA 580

CONCEPT

- Obtain S&A evidence that **opening balances** have no material misstatements and policies are consistently applied.
- If predecessor audited, perusing audited FS may give evidence; closing balances ordinarily relied upon unless misstatement is indicated.
- Collection of opening receivables in current year gives some evidence.
- Written representations (SA 580) support but never suffice alone.

CASE

- CA Rig excluded receivables on mgmt's affirmation alone, which is insufficient.
- He should have taken a written representation and still audited the balances.

CONCLUSION

Approach inappropriate; CA Rig is guilty of professional misconduct for lack of due diligence or gross negligence.

[Click for detailed question »](#)
[ICAI answer »](#)
Q6b**Comet Logistics — Payroll Outsourced to ProPay (SA 402)**

Ch 4 • Materiality, Risk Assessment & Internal Control

≈ PARAM 52.800

5 Marks

FOCUS

- Payroll fully outsourced; auditor must evaluate design and operating effectiveness of controls at the service organisation.
- Relevance of Type 1 vs Type 2 report.

APPLIES

SA 402 — Entity Using a Service Organisation

CONCEPT

- User auditor must understand the nature and significance of services and their effect on internal control.
- **Type 1 report:** description and design of controls at a specified date; no evidence on operating effectiveness.
- **Type 2 report:** also covers operating effectiveness over a specified period.
- Evaluate service auditor's competence and independence, period covered, and later control changes.

CASE

- Auditor needs both design and operation of payroll controls at ProPay, so a Type 2 report is appropriate.

CONCLUSION

Type 2 report is appropriate; Type 1 helps with design but alone cannot support reliance on operating effectiveness.

[Click for detailed question »](#)
[ICAI answer »](#)
Q6c EITHER**Articled Assistant Profit Share Misconduct**

Ch 19 · Professional Ethics & Liabilities of Auditors

PARAM 662.000

4 Marks

FOCUS

- Newly practising CA pays stipend plus 1% of firm's profits to an articled assistant, citing financial support.

APPLIES

CA Act 1949 First Schedule Part I Cl (2)

CONCEPT

- **Clause (2) Part I:** paying or allowing any share, commission or brokerage in fees or profits of professional business to a non-eligible person is misconduct.
- Eligible: members of the Institute, partners, retired partners, legal representative of a deceased partner, members of other professional bodies or prescribed-qualified persons.

CASE

- An articled assistant is none of these; motive of helping a weak-position assistant is no defence.

CONCLUSION

ICAI's objection is correct; Mr. Chetan is guilty of professional misconduct under Clause (2) Part I.

[Click for detailed question »](#)
[ICAI answer »](#)
Q6c OR**Kinlab — Future Maintainable Turnover Factors**

Ch 17 · Due Diligence, Investigation & Forensic Accounting

PARAM 639.000

4 Marks

FOCUS

- Investigator assesses future maintainable turnover for valuation: steady but uneven sales, new markets, policy changes, cheaper competitors.

APPLIES

Investigation — Future Maintainable Turnover

CONCEPT

- **Trend:** whether past sales rose consistently or fluctuated; study properly.
- **Marketability:** scope to extend sales into new markets; product-wise estimation.
- **Political and economic considerations:** Government policies on exports; home-market effect of economic trends.
- **Competition:** new entrants, cheaper rival products, rival demand and company's market share stability.

CONCLUSION

Kinlab's turnover estimate must weigh trend, marketability, political-economic conditions and competition.

[Click for detailed question »](#)
[ICAI answer »](#)



Part I Case Scenario based MCQs

CASE SCENARIO 1 Aarav Agro Products – Trade Payables Audit

[Click for full case »](#)

New auditor Ms. Kavya sets materiality at ₹18 lakh and treats understated trade payables as a significant risk; vendor confirmation differences, unrecorded invoices and sample errors of ₹14 lakh. — MCQ 1–4

MCQ 1 Aarav Agro – Samples for Vendor Balance Reconciliations

Ch 5 · Audit Evidence

NEW

QUESTION Which vendors should be selected as samples for **vendor balance reconciliations** when materiality is ₹18 lakh and understatement of trade payables is the key risk?

OPTIONS Options combine major vendors whose confirmations agree with GL, high-volume vendors, and balances above or below materiality; trap is the agreeing-balance vendors.

ANSWER (b) Reconciliation samples must target risk of **understated payables**: high-volume vendors (ii), balances at or above materiality (iii) and also below-materiality balances (iv), where omissions can hide. Major vendors whose confirmations already agree with GL (i) need no reconciliation, so options with (i) fail.

APPLIES SA 530 · SA 505 · SA 320

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 2 Testing Operating Effectiveness of Payables Controls

Ch 4 · Materiality, Risk Assessment & Internal Control

NEW

QUESTION How can Ms. Kavya audit the **operating effectiveness** of internal controls around accounting of trade payables?

OPTIONS Options mix recalculation of ageing, random sample with third-party evidence, inputting a fake invoice, and payable days analytics; trap is mistaking substantive procedures for tests of controls.

ANSWER (c) A **test of controls** checks whether a control actually operates, e.g. inputting a fake purchase invoice to see if the system processes or blocks it. Recalculating ageing, sampling with third-party evidence and payable-days analytics are substantive procedures on balances, not tests of control operation.

APPLIES SA 330 · SA 315

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 3 Surya Sunflower – Unrecorded Invoices and Cut-off

Ch 5 · Audit Evidence

NEW

QUESTION Two invoices dated 22 and 26 March 2026 were received on 4 April 2026 and not recorded. Which procedure best verifies correct recording of Surya Sunflower's payable?

OPTIONS Options offer confirmation, subsequent payment check, purchase order listing review, and GRN inspection; trap is procedures that do not fix the date of receipt of goods.

ANSWER

(d) Liability arises when goods are received, not when the invoice arrives. **Inspecting the Goods Receipt Note** fixes the date of receipt and so the cut-off for the two invoices. Confirmation was already done and shows only the difference; payments and PO listing do not prove receipt date.

APPLIES

SA 500 · SA 330 · Cut-off

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 4****Projecting Sample Errors to the Population**

Ch 5 · Audit Evidence

≈ PARAM 78.000

QUESTION

A ~25% sample shows errors of ₹5 lakh and ₹9 lakh against materiality of ₹18 lakh. What is the proper course of action?

OPTIONS

Options range from ignoring errors below materiality, asking client to adjust only the found amount, re-sampling to waive off, to projecting errors across the population.

ANSWER

(d) SA 530 — misstatements found in a test of details sample must be **projected to the population** to estimate the likely total misstatement. Being below materiality does not excuse it, adjusting only the found errors ignores the unsampled population, and re-sampling to waive off is not permitted.

APPLIES

SA 530 · SA 450

[Click for detailed question »](#)[ICAI answer »](#)**CASE SCENARIO 2****Orion Electricals & State Housing Dept — CARO, C&AG, BRSR, Ethics**[Click for full case »](#)

Sapphire & Associates: CARO points on PPE revaluation and cash credit limit, C&AG audit of a State Housing Department, BRSR disclosures of Hydra Power, and CA Pooja joining a urban co-operative bank board. — MCQ 5–9

MCQ 5**Hydra Power — BRSR Essential vs Leadership Indicators**

Ch 18 · SDG & ESG Assurance

≈ PARAM SDG.350

QUESTION

Hydra Power discloses total **greenhouse gas emissions** and a detailed plan for future energy consumption. How are these classified under BRSR?

OPTIONS

Four combinations of Essential (mandatory) and Leadership (optional) for the emission data and the future energy plan; trap is treating a forward-looking plan as mandatory.

ANSWER

(d) BRSR **Essential Indicators** are mandatory and cover data such as GHG emissions; **Leadership Indicators** are optional and cover aspirational items such as plans and targets for future energy consumption. So emissions are mandatory, the future energy plan is optional.

APPLIES

BRSR · SEBI LODR

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 6****Orion — CARO Reporting on Working Capital Limits**

Ch 7 · Reporting

PARAM 392.200

QUESTION

A ₹5.40 crore cash credit limit secured on current assets was later reduced to ₹4.80 crore; quarterly statements agree with books. Is reporting required under CARO 2020?

OPTIONS

Options test whether Clause 3(ii)(b) applies, whether later reduction below ₹5 crore removes it, and the wrong clause 3(iii)(a).

ANSWER

(a) Clause 3(ii)(b) applies if **at any point of time** during the year the sanctioned limit exceeded ₹5 crore in aggregate on security of current assets. Later reduction does not remove it. The auditor reports it, including whether quarterly statements agree with books. Clause 3(iii)(a) concerns loans.

APPLIES

CARO 2020 Cl 3(ii)(b)

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 7****State Housing Department — To Whom C&AG Reports**

Ch 15 · Audit of Public Sector Undertakings

PARAM 597.900

QUESTION

The C&AG audits a State Housing Department. To whom is the audit report likely to be submitted?

OPTIONS

Options: Board of the Authority, Governor of the State, Central Government, Ministry of Housing and Urban Affairs; trap is picking the Union-level recipient.

ANSWER

(b) For accounts of a **State**, the C&AG submits the audit reports to the **Governor of the State**, who causes them to be laid before the State Legislature (Constitution, Art. 151 and DPC Act). Reports on Union accounts go to the President.

APPLIES

Constitution Art. 151 · C&AG DPC Act 1971

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 8****Pooja — Board of Management of Urban Co-operative Bank**

Ch 19 · Professional Ethics & Liabilities of Auditors

≈ PARAM 776.020

QUESTION

Can CA Pooja, a CA in practice, accept membership of the **Board of Management** of a Primary (Urban) Co-operative Bank without being guilty of misconduct?

OPTIONS

Options contrast rural vs urban co-operative banks, reciprocation for assistance (Part III Second Schedule), and Clause 11 of Part I First Schedule on other occupation.

ANSWER

(b) Per ICAI's key, a CA in practice may be a member of the **Board of Management of primary (urban) co-operative banks**, so Pooja is not guilty. Clause 11 (engaging in other occupation) does not apply and no reciprocation misconduct arises merely from the recommendation.

APPLIES

First Schedule Part I Cl 11 · Council General Guidelines

[Click for detailed question »](#)[ICAI answer »](#)**MCQ 9****Orion — CARO Reporting on PPE Revaluation**

Ch 7 · Reporting

PARAM 392.200

QUESTION

PPE carrying amount rose from ₹13.2 crore to ₹15.8 crore on revaluation by a registered valuer. What is the CARO 2020 reporting responsibility?

OPTIONS

Options test whether valuer's report removes reporting, correct clause (i)(d) vs (i)(c), and whether the change exceeds 10 percent.

ANSWER

(b) Clause 3(i)(d) requires reporting if PPE was revalued and the **change exceeds 10%** of the net carrying amount of each class. Here the increase is ₹2.6 crore on ₹13.2 crore (about 19.7%), so reporting is required. A registered valuer's report does not exempt; (i)(c) is about title deeds.

APPLIES

CARO 2020 Cl 3(i)(d)

[Click for detailed question »](#)[ICAI answer »](#)

CASE SCENARIO 3

Arogya Bank — Auditor Appointment, Stock Audit & Concurrent Audit

[Click for full case »](#)

Bank appoints Sukh and Associates as statutory auditors of ten branches already under their stock audit; concurrent audit of Kochi branch with unpreserved remittance intimations and high value cash deposits. — MCQ 10–13

MCQ 10

Arogya Bank — Authority to Appoint Statutory Auditors

Ch 14 · Audit of Banks & NBFCs

NEW

QUESTION

Can the Bank's management appoint and fix remuneration of statutory auditors without the Audit Committee or members in AGM?

OPTIONS

Options: only consultation with Audit Committee, Audit Committee alone because of stock audit appointment, management free to appoint, or AGM resolution required.

ANSWER

(d) Statutory auditors of the bank are appointed and their remuneration fixed by **resolution of members in general meeting**, not by management alone. A prior stock audit appointment by the Audit Committee gives no power to management or the Committee to appoint the firm as statutory auditors.

APPLIES

Banking Regulation Act · Companies Act s.139 · RBI guidelines

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 11

Sukh and Associates — Stock Audit vs Statutory Audit

Ch 14 · Audit of Banks & NBFCs

NEW

QUESTION

Sukh and Associates did **stock audit** of ten branches for 2025-26. May they accept statutory audit of the same branches in that year?

OPTIONS

Options turn on prior Audit Committee appointment, same-branch continuity, the bar on internal assignments in the same year, or management's lack of authority.

ANSWER

(c) A firm should not undertake a **statutory audit** while associated with internal assignments of the bank (such as stock audit or concurrent audit) during the same year, as it impairs independence. The ground is this conflict, not merely who offered the appointment.

APPLIES

RBI / ICAI Guidelines on Bank Audits · Independence

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 12

Kochi Branch — Unpreserved Cash Remittance Intimations

Ch 14 · Audit of Banks & NBFCs

NEW

QUESTION

Kochi branch cannot show e-mail **intimations of cash remittance** to the currency chest, though cash was remitted the same day. How should the concurrent auditor deal with it?

OPTIONS

Options: report as major irregularity, discuss with Branch Manager and check compliance next period, verify e-mail and close, or ignore as minor.

ANSWER

(b) It is a **minor irregularity** (cash was actually remitted). The concurrent auditor should discuss the importance of preserving hard or soft copies with the Branch Manager and verify compliance in the next audit period. It is not a major irregularity for reporting, and cannot be ignored or merely closed.

APPLIES

RBI Concurrent Audit Guidelines · Bank branch audit

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 13

Kochi Branch — Verifying High Value Cash Deposits

Ch 14 · Audit of Banks & NBFCs

NEW

QUESTION

What parameters and documents must a concurrent auditor verify for **high value cash deposits** in the Kochi branch current account?

OPTIONS

Options differ in completeness: remittance only, KYC and reason only, full set with discrepancies and currency chest records, or reason and discrepancies only.

ANSWER

(c) The auditor verifies **KYC documents** of the account, the reason for the deposit (nature of business or transaction), any discrepancies found in the customer's cash, and that currency chest remittance records are properly maintained. Options covering only part of this are incomplete.

APPLIES

RBI Concurrent Audit Guidelines · KYC

[Click for detailed question »](#)
[ICAI answer »](#)
CASE SCENARIO 4**GAME & Co — Website, Publicity & CARO Reliance**
[Click for full case »](#)

CA firm with a push-technology website listing clients and fees, a partner handing bio-data in a TV interview, a branch-opening advertisement with photograph, and CARO audit relying only on MIS and representations. — MCQ 14–17

MCQ 14

Game-ca.com — Push Technology and Client Disclosure

Ch 19 · Professional Ethics & Liabilities of Auditors

PARAM 687.000

QUESTION

The firm's website uses **push technology** and lists major clients with fees charged. What is correct under Council Guidelines?

OPTIONS

Options: fully compliant, violation due to push technology and client/fee disclosure, allowed at firm's discretion, or liable only if used to solicit.

ANSWER

(b) Council guidelines require websites to run on **pull technology**, not push, and prohibit disclosing client names and fees unless required by law or regulator. The firm violates both. Neon colours are not the issue, and liability does not depend on proven solicitation.

APPLIES

First Schedule Part I Cl 6 · Council Guidelines on Websites

[Click for detailed question »](#)
[ICAI answer »](#)

MCQ 15

Shiv — Bio-Data Handed Over in TV Interview

Ch 19 · Professional Ethics & Liabilities of Auditors

≈ PARAM 674.000

QUESTION

Mr. Shiv hands the interviewer the firm's **bio-data** (affiliations, personal awards, notable clients) during a TV interview. Is he guilty of misconduct?

OPTIONS

Options: guilty under Clause (6) Part I First Schedule, not guilty as he did not read it out, not guilty if factual, or guilty only if ads ran alongside.

ANSWER

(a) Handing over a bio-data promoting the firm and the partner's achievements is indirect **solicitation of professional work**, hence misconduct under Clause (6) of Part I of the First Schedule. Factual accuracy or not reading it out is no defence, and ads alongside are irrelevant.

APPLIES

First Schedule Part I Cl 6 · CA Act 1949

[Click for detailed question »](#)
[ICAI answer »](#)

MCQ 16

RST Ltd — Reliance on MIS and Management Representations

Ch 5 • Audit Evidence

≈ PARAM 97.000

QUESTION

The audit team relied only on system-generated **MIS reports** and management representations for CARO 2020 reporting, without testing records or controls. Is this appropriate?

OPTIONS

Options: sufficient due to consistency, acceptable as CARO relies on management information, inappropriate as these cannot replace audit procedures, or justified absent fraud indications.

ANSWER

(c) Management representations and system-generated MIS are not **sufficient appropriate audit evidence** on their own and cannot substitute independent procedures (verification of records, evaluation of controls) needed for SA compliance and CARO reporting. Consistency between the two is no assurance.

APPLIES

SA 500 • SA 580 • CARO 2020

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 17

Balveer — Photograph in Branch Opening Advertisement

Ch 19 • Professional Ethics & Liabilities of Auditors

PARAM 667.000

QUESTION

Mr. Balveer publishes a congratulatory newspaper advertisement with his **photograph** on opening a new branch office. Is it permissible?

OPTIONS

Options: permissible as mere event information, as personal credentials, permissible without services or fees, or not permissible as indirect solicitation.

ANSWER

(c) Publishing the partner's photograph in an advertisement for the branch opening promotes the partner and firm and indirectly **solicits professional work**, which is professional misconduct (Clause 6, Part I, First Schedule). Absence of fee or service details does not cure it.

APPLIES

First Schedule Part I Cl 6 • CA Act 1949

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 18

NovaTech — CIA Response to HR Audit Red Flags

Ch 16 • Internal Audit

NEW

QUESTION

The CIA finds ineligible candidates selected and unusual changes in recruitment records, suggesting influence by a senior employee. What is the most appropriate initial response?

OPTIONS

Options: discuss with HR Head, wait till audit end, restrict to reporting deficiencies, or assess tampering risk and escalate to CEO/MD or Audit Committee.

ANSWER

(d) With red flags of possible fraud and **evidence tampering** by key personnel, the CIA should assess that risk and escalate to the CEO/MD or **Audit Committee** for detailed investigation. Alerting the HR Head risks tampering, waiting delays action, and fraud indicators cannot be ignored as out of scope.

APPLIES

Internal Audit • Fraud Red Flags • Escalation

[Click for detailed question »](#)[ICAI answer »](#)

MCQ 19

Pink Limited — Reliance on Revenue Controls

Ch 3 • Audit Planning, Strategy & Execution

≈ PARAM 47.500

QUESTION

CA R expects revenue controls to operate effectively and intends to **rely on them**. Which statement is most appropriate?

OPTIONS

Options: tests of controls giving more or less persuasive evidence, no tests of controls, or tests showing operation at year-end only.

ANSWER

(a) SA 330 — when the auditor intends to rely on the **operating effectiveness of controls**, tests of controls must provide more persuasive audit evidence, and the higher the reliance, the more persuasive the evidence required. Less evidence or skipping tests defeats reliance; year-end alone is not required.

APPLIES

SA 330

[Click for detailed question »](#)

[ICAI answer »](#)

MCQ 20**Nova Technologies — Assembly and Modification of Audit File**

Ch 3 · Audit Planning, Strategy & Execution

≈ PARAM 127.675

QUESTION

Report signed 21.8.2025; documentation called 20.7.2026 and found altered before submission on 10.8.2026. By when was the file to be assembled, and was modification permissible?

OPTIONS

Options pair assembly date (21.8.2025 or 20.10.2025) with whether later modification was generally permissible.

ANSWER

(d) SA 230 — the file must be assembled within **60 days** of the auditor's report, i.e. by 20.10.2025. After assembly, documentation may not be deleted or discarded before the retention period ends, and changes are allowed only in exceptional circumstances. The post-request alteration was improper.

APPLIES

SA 230 · SQC 1

[Click for detailed question »](#)

[ICAI answer »](#)

MCQ 21**STU Ltd — Internal Auditor Approaching Vendors**

Ch 16 · Internal Audit

NEW

QUESTION

Mr. X, internal auditor of STU Ltd, finds unusual purchases and wants information from selected **vendors**. What is the most appropriate course?

OPTIONS

Options: no third-party contact, approach vendors through management unless fraud is suspected, contact directly without informing management, or exclude from scope.

ANSWER

(b) Evidence from third parties is normally sought **through management**; a different approach is justified only for a specific reason such as suspected fraud. Contact is within scope, so (a) and (d) fail, and bypassing management as a rule (c) is inappropriate.

APPLIES

Internal Audit · Evidence from Third Parties

[Click for detailed question »](#)

[ICAI answer »](#)

MCQ 22**Olive Manufacturing — Inappropriate Going Concern Basis**

Ch 7 · Reporting

PARAM 90.090

QUESTION

Olive Manufacturing has heavy losses and cannot meet obligations; the auditor concludes going concern basis is **inappropriate**, yet management used it. What should the auditor do?

OPTIONS

Options: adverse, qualified, disclaimer, or unmodified opinion with Emphasis of Matter.

ANSWER

(a) SA 570 — where FS are prepared on a going concern basis that is in the auditor's judgment **inappropriate**, the auditor expresses an **adverse opinion**, as the misstatement is material and pervasive. EOM, qualification or disclaimer are not the prescribed response.

MCQ 23

Secure Health Insurance — Claims Automation Technology

Ch 12 · Digital Auditing & Assurance

≈ PARAM DAA.990

QUESTION

Claims submitted on the website are automatically processed and validated against existing company records, reducing manual intervention. Which technology is most likely used?

OPTIONS

Options: Power BI, Internet of Things, Robotic Process Automation, Data Analytics; trap is analytics tools that do not execute rule-based tasks.

ANSWER

(c) Robotic Process Automation uses software bots to perform rule-based, repetitive tasks such as filling and validating forms against existing data, cutting manual effort. Power BI and data analytics analyse data, and IoT connects physical devices.

APPLIES

Digital Auditing · RPA

Part II**Descriptive Questions**

Q1a

ABC Ltd — Dating Report Before EQCR Completion

Ch 1 · Quality Control

PARAM 5.010

5 Marks

FOCUS

- Listed company; EQCR (CA Rohan) completed on 28 May 2026 but report signed and dated 25 May 2026 by CA Yatin.
- Is dating before EQCR completion acceptable because evidence was already obtained?

APPLIES

SA 220 — Quality Control · SA 700

CONCEPT

- For listed entities, EP must determine an **EQCR is appointed** and discuss significant matters with the EQCR.
- EP shall **not date the auditor's report** until the EQCR is complete.
- EQCR objectively evaluates significant judgments, material estimates and appropriateness of the report.
- SA 700 — report dated not earlier than when sufficient appropriate evidence is obtained; EQCR helps conclude this.
- EQCR leave or expectation of no issue does not justify early dating; matters must be resolved before the report date.

CASE**CONCLUSION**

CA Yatin's approach is not appropriate and contravenes SA 220; EQCR should have been completed before dating the report.

Q1b

Modified Opinions In Three Independent Situations

Ch 7 · Reporting

≈ PARAM 119.400

5 Marks

FOCUS

- Choose type of modification under SA 705: scope limitation vs misstatement, material vs pervasive.
- (i) Oceanic inventory 18% of assets; (ii) Trident non-consolidation of Alpha; (iii) Vertex multiple evidence gaps.

APPLIES

SA 705 — Modifications to the Opinion

CONCEPT

- Modify when FS **materially misstated** or auditor cannot obtain sufficient appropriate evidence.
- Type depends on nature of matter and whether effects are **material and pervasive**.
- Material but not pervasive: **qualified**; misstatement material and pervasive: **adverse**.
- Evidence unobtainable with possible effects material and pervasive: **disclaimer**.

CASE

- (i) Records destroyed, no alternative procedures, effect not pervasive; mgmt refusal of disclosure does not change type.
- (ii) Alpha (32% assets, 28% revenue) must be consolidated; mgmt refuses.
- (iii) Contracts and records withheld across revenue, impairment, receivables.

CONCLUSION

(i) Qualified opinion (scope limitation); (ii) Adverse opinion; (iii) Disclaimer of opinion.

[Click for detailed question »](#)

[ICAI answer »](#)

Q1c**Summit Distributors — Audit Of Trade Receivables Under SA 805**

Ch 8 · Specialised Areas

≈ PARAM 805.100

4 Marks

FOCUS

- Bank wants a report on trade receivables of ₹18 crore for drawing power; separate auditor audits full FS.
- Considerations in planning and performing audit of a specific element.

APPLIES

SA 805 — Single FS and Specific Elements · SA 240 · SA 550 · SA 570 · SA 260

CONCEPT

- **Adapt all relevant SAs**; SA 240, SA 550 and SA 570 remain relevant in principle (fraud, related parties, going concern).
- SA 260: identify right person(s) in governance; may differ from TCWG for the complete FS.
- If done with the full audit, **evidence of complete FS audit** can be used, but evidence must still suffice for the element.
- Element is **interrelated** with other items, so procedures on related items may be needed.
- **Materiality** for the element may be lower than for complete FS, affecting nature, timing and extent.

CONCLUSION

Auditor should **adapt all relevant SAs**, may use evidence from the complete FS audit, consider **interrelated items**, and apply element-level materiality that may be lower than for the complete FS.

[Click for detailed question »](#)

[ICAI answer »](#)

Q2a**M & T — Sponsorship And CSR Banner Implications**

Ch 19 · Professional Ethics & Liabilities of Auditors

PARAM 688.800

5 Marks

FOCUS

- (i) Firm sponsored an ICAI PoU seminar without prior CPE Directorate approval; name shown as sponsor.
- (ii) Partner CA Gunjan's CSR banner showed name, designation and firm logo.

APPLIES

Clause (6) Part I First Schedule, CA Act 1949 — Soliciting work · Council guidelines on sponsorship

CONCEPT

- Clause (6): soliciting work **directly or indirectly** by any means is professional misconduct.
- Member or firm cannot sponsor events, except a **PoU event with prior CPE Directorate approval**.
- In CSR sponsorship, member may mention **individual name with prefix CA**; firm name or CA Logo not permitted.

CASE

- (i) No prior CPE approval obtained, so sponsorship is prohibited.
- (ii) Firm designation and logo displayed on the banner, which is not allowed.

CONCLUSION

(i) M/s M&T guilty of professional misconduct under Clause (6); (ii) CA Gunjan guilty under Clause (6) Part I First Schedule.

[Click for detailed question »](#)

[ICAI answer »](#)

Q2b

Apex Plastics — Fictitious Purchases Fraud Responsibilities

Ch 2 · General Auditing Principles & Auditors' Responsibilities

≈ PARAM 340.050

5 Marks

FOCUS

- Store-in-charge created fake purchase invoices for two years, diverted about ₹1.20 crore, forged purchase manager's signature.
- Mgmt says detecting fraud is auditor's job and threatens non-renewal.

APPLIES

SA 240 — Auditor's Responsibilities Relating to Fraud · SA 705

CONCEPT

- **Primary responsibility** for prevention and detection of fraud rests with TCWG and mgmt.
- Mgmt should stress fraud prevention and deterrence through a culture of honesty and ethics.
- Auditor maintains **professional scepticism**, considers mgmt override; procedures effective for error may not detect fraud.

CASE

- Communicate fraud timely to mgmt and TCWG; reassess fraud risks and extend procedures.
- Consider reliability of mgmt representations and integrity concerns; assess misstatement and effect on opinion (SA 705).
- Consider statutory reporting under Companies Act, 2013.

CONCLUSION

Mgmt's contention is incorrect; auditor must respond and report as above, and the non-renewal threat must not affect professional judgement.

[Click for detailed question »](#)
[ICAI answer »](#)

Q2c

Phishing And Ransomware — Malware Types

Ch 12 · Digital Auditing & Assurance

NEW

4 Marks

FOCUS

- Phishing email led employee to install fake trusted software, giving attacker unauthorised access.
- Later, files encrypted and payment demanded for decryption key.

APPLIES

Information systems — Cyber threats and malware

CONCEPT

- **Trojan**: malware that looks like legitimate software or harmless file but performs malicious activity once installed.
- **Ransomware**: malware that encrypts victim's data and demands payment for a decryption key.

CASE

- Employee tricked via phishing into installing apparently genuine software, enabling unauthorised access: Trojan.
- Encrypted company files and payment demand: Ransomware.

CONCLUSION

First incident is a Trojan attack; the subsequent encryption and ransom demand is a Ransomware attack.

[Click for detailed question »](#)
[ICAI answer »](#)

Q3a

RST Ltd — Auditing Accounting Estimates Under SA 540

Ch 5 · Audit Evidence

≈ PARAM 81.050

5 Marks

FOCUS

- Three estimates: ₹80 lakh warranty provision, unquoted investment at fair value with unobservable inputs, doubtful debt provision cut from 6% to 3% despite worse ageing.

APPLIES

SA 540 — Auditing Accounting Estimates · SA 330

CONCEPT

- For significant-risk estimates, evaluate how mgmt considered **alternative assumptions or outcomes** and why rejected.
- Evaluate whether **significant assumptions** are reasonable.
- Evaluate mgmt's intent and ability to carry out specific courses of action where relevant.

CASE

- Warranty: evaluate method and past claim trends, compare previous estimates with actual claims.
- Unquoted investment: evaluate valuation model, test data, check assumptions and fair value disclosures of uncertainty.
- Doubtful debts: critically evaluate reduction; examine subsequent collections, ageing and loss history.

CONCLUSION

Auditor should not merely accept mgmt's estimates; obtain sufficient appropriate evidence on methods, data, assumptions and disclosures.

[Click for detailed question »](#)
[ICAI answer »](#)
Q3b**SOP Ltd – Group Audit Materiality And Component Qualification**

Ch 13 · Group Audits

PARAM 442.000

5 Marks

FOCUS

- Component auditors' materiality differs from group materiality and was not communicated by CA R.
- Subsidiary (28% assets, 24% revenue) has a qualified opinion; CA R sees only standalone effect.

APPLIES

SA 600 — Using the Work of Another Auditor · SA 705 · SA 706

CONCEPT

- Compute **group materiality**; use it to assess consolidation adjustments and decide scope of components.
- Principal auditor computes component materiality and **communicates** it to component auditor if needed for true and fair view of CFS.
- Obtain confirmations from component auditors: independence, ethics, consolidation information, disclosures.
- Component's modification or EOM is considered under SA 600, applying **materiality**.

CASE

- Subsidiary is significant and qualified: evaluate nature of the qualification against group materiality, not just standalone effect.
- Communicate relevant materiality to the component auditor.

CONCLUSION

CA R's proposal is wrong; he must assess the qualification's effect on the consolidated FS using group materiality.

[Click for detailed question »](#)
[ICAI answer »](#)
Q3c**PQR Ltd – ERP Audit Trail Reporting Responsibilities**

Ch 7 · Reporting

≈ PARAM 619.100

4 Marks

FOCUS

- Payroll module had no audit trail; other modules from 1 July 2025; database-level changes not logged; admins could disable audit trail.

APPLIES

Section 143 · Rule 11(g), Companies (Audit and Auditors) Rules, 2014 · Companies (Accounts) Rules, 2014 · SA 265

CONCEPT

- Auditor reports whether software has **audit trail (edit log)** of each transaction and each change.
- Audit trail must have **operated throughout the year** for all transactions.
- It must **not be tampered with** and must be preserved per record-retention requirements.

CASE

- Payroll not activated; others only from 1 July 2025, so not operational throughout the year.
- Database-level changes not captured; admins able to disable it, inconsistent with non-tampering requirement.

CONCLUSION

CA Meera should report these exceptions under Rule 11 and communicate control deficiencies to TCWG under SA 265.

[Click for detailed question »](#)
[ICAI answer »](#)

Q4a

Rani Ltd — Segment Information: Understanding Management Methods

Ch 5 • Audit Evidence

PARAM 60.060

5 Marks

FOCUS

- Listed co with inter-segment sales/transfers, common assets and costs allocated, and an allocation basis that changed from last year.
- Asks the SA 501 **examples of matters** to consider when understanding mgmt's segment methods.

APPLIES

SA 501 — Audit Evidence: Specific Considerations for Selected Items

CONCEPT

- Auditor gets S&A evidence on **presentation and disclosure of segment information** per the applicable FRF.
- Understand mgmt's methods and consider whether they are likely to give FRF-compliant disclosure.
- Sales, transfers and charges between segments, and **elimination of intersegment amounts**.
- Comparisons with budgets and other expected results, e.g. operating profit as % of sales.
- Allocation of assets and costs among segments.
- Consistency with prior periods**, and adequacy of disclosure of inconsistencies.

CASE

- Raja & Co. should examine inter-segment transactions, the allocation of common assets/costs, comparison with budgets, and the changed allocation basis with its disclosure.

CONCLUSION

These four example matters let Raja & Co. assess whether segment information is determined and presented per the FRF.

[Click for detailed question »](#)
[ICAI answer »](#)

Q4b

The Iron Company — Conditional Acceptance Without Previous Auditor's Reply

Ch 19 • Professional Ethics & Liabilities of Auditors

PARAM 704.550

5 Marks

FOCUS

- Govt company (Central Govt holds 65%); very short time given; CA N communicated with previous auditor but accepted conditionally and started audit before the reply.
- Has CA N complied with the CA Act, 1949 and Schedules?

APPLIES

Clause (8) of Part I of First Schedule — CA Act, 1949

CONCEPT

- Accepting an audit previously held by another CA **without first communicating in writing** is misconduct.
- Communication is mandatory for both government and non-government entities.
- Govt company/bank audit with timely appointment: communicate and comply **before accepting**.
- If time schedule leaves no time to wait for reply, auditor may give **conditional acceptance** and start urgent work after sending the communication.
- Acceptance letter must say it is subject to previous auditor's professional objections, if any.

CASE

- Central Govt holds 65% so Iron Company is a **government company**; time was too short; CA N had already communicated and accepted conditionally.

CONCLUSION

CA N has complied with the CA Act, 1949 and the Schedules; no professional misconduct.

[Click for detailed question »](#)
[ICAI answer »](#)

Q4c

GreenEarth Ltd — Climate-Related Matters: Role of Auditor

Ch 18 • SDG & ESG Assurance

≈ PARAM SDG.500

4 Marks

FOCUS

- Listed co with climate-related exposure (regulations, low-carbon transition, impairment risk of carbon-intensive assets) and climate claims in annual report/sustainability disclosures.
- Asks the auditor's role in an audit of FS.

APPLIES

SA 200 · SA 700 · SA 720 (ISA 720) — Other Information

CONCEPT

- Obtain **reasonable assurance** that FS as a whole are free from material misstatement and fairly presented per the FRF.
- Include consideration of **climate-related risks** and how they are relevant to the audit.
- Audit report must follow applicable auditing standards and explain auditor's responsibilities and most significant matters.
- May include an **Emphasis of Matter** para for disclosures fundamental to users' understanding.
- Determine whether relevant climate-related information is appropriately disclosed in FS per the FRF.
- Read **other information** for consistency with FS and public communications as per SA 720.

CONCLUSION

Auditor's role stays FS-focused: consider climate risks, check FRF disclosures, and read other information (incl. sustainability claims) for consistency under SA 720.

[Click for detailed question »](#)[ICAI answer »](#)**Q5a****Joy Ltd — Written Representations Refused by Management**

Ch 6 · Completion & Review

PARAM 98.000

5 Marks

FOCUS

- Mgmt orally confirmed (i) all information and access provided, (ii) all transactions recorded; then refused written representations, calling them unnecessary.
- Asks: is written WR needed, in what form, and the course of action on refusal.

APPLIES

SA 580 — Written Representations · SA 705

CONCEPT

- Auditor shall request WR that mgmt fulfilled its FS-preparation responsibility per the FRF, per engagement terms.
- Also WR that **all relevant information and access** was provided and **all transactions recorded** in FS.
- **Oral confirmations do not substitute** for written representations.
- Form: ordinarily a **representation letter addressed to the auditor**.
- On refusal: discuss with mgmt; re-evaluate **integrity of mgmt**; take actions incl. effect on opinion per SA 705.

CASE

- Joy Ltd.'s oral confirmations cannot replace WR; Narayan & Co.'s insistence is justified.

CONCLUSION

WR required despite oral confirmations; given as representation letter; if refusal persists or integrity is doubtful, auditor **disclaims an opinion** under SA 705.

[Click for detailed question »](#)[ICAI answer »](#)**Q5b****CA Puneet — Using Internal Audit Function's Work**

Ch 16 · Internal Audit

≈ PARAM 103.100

5 Marks

FOCUS

- Engagement partner used internal audit's work on payroll controls without evaluating objectivity, competence and due care, and without discussing planned use with them.
- Is the approach appropriate under SA 610?

APPLIES

SA 610 — Using the Work of Internal Auditors

CONCEPT

- Before using IAF work, evaluate extent to which its **organisational status, policies and procedures support objectivity**.
- Evaluate the **level of competence** of the IAF.
- Evaluate whether IAF applies a **systematic and disciplined approach**, incl. quality control.
- For **direct assistance**: written agreements, evaluate threats to objectivity, competence, and discuss planned use with internal auditors.
- External auditor remains **solely responsible** for the opinion.

CASE

- CA Puneet skipped the evaluation of objectivity and competence and the discussion of planned use.

CONCLUSION

Not appropriate under SA 610; he must carry out the required evaluation first and remains responsible for the audit opinion.

[Click for detailed question »](#)
[ICAI answer »](#)
Q5c**CA Ajeet — Non-Compliance with Companies Act Auditor Duties**

Ch 19 · Professional Ethics & Liabilities of Auditors

NEW

4 Marks

FOCUS

- Statutory auditor of Climax Manufacturing Ltd. knew the Companies Act, 2013 required specific procedures/duties but followed inconsistent procedures.
- Is he guilty of professional misconduct under the CA Act, 1949?

APPLIES

Clause (5) of Part II of Second Schedule — CA Act, 1949

CONCEPT

- Clause (5), Part II, Second Schedule applies to a member **whether in practice or not**.
- Misconduct if he acts as auditor of a company in **contravention of the Companies Act, 2013**.
- Statutory duties of the auditor must be complied with as prescribed.

CASE

- CA Ajeet did not comply with the prescribed requirements and followed procedures inconsistent with the Act.

CONCLUSION

CA Ajeet is guilty of professional misconduct under Clause (5) of Part II of Second Schedule.

[Click for detailed question »](#)
[ICAI answer »](#)
Q6a**BCA Ltd — Joint Audit Plan Considerations**

Ch 3 · Audit Planning, Strategy & Execution

NEW

5 Marks

FOCUS

- Three joint auditors: Arjun wants independent areas with no discussion; Bharat wants mutual division with common areas; Chirag wants reporting, significant matters and resources fixed first.
- Is Bharat's and Chirag's approach appropriate; key matters in the joint audit plan?

APPLIES

SA 299 — Joint Audit of Financial Statements

CONCEPT

- Before commencement, joint auditors shall **discuss and develop a joint audit plan**.
- Identify **division of audit areas and common audit areas** defining each auditor's scope; division by mutual discussion.
- Important areas are often not divided and are covered by **all** joint auditors.
- Ascertain **reporting objectives**, timing and communications required.
- Communicate factors significant in directing engagement team's efforts; consider preliminary engagement activities.
- Ascertain **nature, timing and extent of resources** needed.

CASE

- Bharat's mutual division with common areas (revenue, RPTs, estimates) and Chirag's plan on reporting, matters and resources match SA 299; Arjun's no-discussion approach does not.

CONCLUSION Approach of CA Bharat and CA Chirag is appropriate; CA Arjun's approach is not appropriate.

[Click for detailed question »](#)

[ICAI answer »](#)

Q6b Super Builders — Materiality Revision and Uncorrected Misstatements

Ch 4 • Materiality, Risk Assessment & Internal Control

PARAM 55.500

5 Marks

FOCUS

- Materiality was set on mgmt's full-year revenue extrapolated from 11 months; last month's actual sales were only 30% of estimate due to slowdown.
- How should the auditor evaluate uncorrected misstatements?

APPLIES

SA 450 — Evaluation of Misstatements • SA 320 — Materiality

CONCEPT

- SA 450: **reassess materiality** per SA 320 before evaluating uncorrected misstatements.
- Initial materiality often rests on estimates; adjust to **actual financial results** when available.
- SA 320: materiality may be revised if the auditor learns information that would have led to a different initial figure.
- If revised materiality is **lower**, reconsider **performance materiality** and the nature, timing and extent of further procedures.

CASE

- Actual last-month sales were 30% of estimate, so Mr. Mahavir must revise the revenue-based materiality before evaluating misstatements.

CONCLUSION

Reassess materiality on actual revenue; if lower, revisit performance materiality and further audit procedures before evaluating uncorrected misstatements.

[Click for detailed question »](#)

[ICAI answer »](#)

Q6c EITHER Dheer Facilitation Centre — Second Office Not Intimated to ICAI

Ch 19 • Professional Ethics & Liabilities of Auditors

PARAM 659.000

4 Marks

FOCUS

- Sole proprietor opened a facilitation centre 26 km away and manages both; no intimation to ICAI and no main-office declaration.
- Is CA Dheer liable for misconduct under the CA Act, 1949?

APPLIES

Section 27 — Chartered Accountants Act, 1949

CONCEPT

- Each office in India must be in **separate charge of a member**.
- A member may be in charge of **two offices** if second is in same premises/city, or within **50 km** of municipal limits of the first office's city.
- Member with two such offices must **declare which is the main office** (professional address).
- Intimation of the offices to the Institute is required.

CASE

- Centre is 26 km away, within the 50 km limit, so Dheer may manage both himself.

CONCLUSION

Distance is fine, but he did not intimate the Institute or declare the main office, so he is liable for professional misconduct.

[Click for detailed question »](#)

[ICAI answer »](#)

Q6c OR VBL Ltd — Loan Appraisal: Investigating Profitability and Financial Position

Ch 17 • Due Diligence, Investigation & Forensic Accounting

≈ PARAM 643.000

4 Marks

FOCUS

- Bank seeks investigation before a substantial term loan: whether projected profits meet repayment schedule and assets give adequate security.
- Procedures of the investigating accountant.

APPLIES

Investigation — Borrower Appraisal for Bank Loan

CONCEPT

- Prepare a **condensed income statement for previous five years**: income, expenses, gross/net profit, taxes paid.
- Maintainable profits are increased by the profit expected from investing the **borrowed funds**.
- Compute ratios for trend: sales to avg inventories, sales to fixed assets, equity to fixed assets.
- Also current ratio, quick ratio, equity to long term loans, sales to book debts, ROCE.
- Show **product-wise annual sales** break-up separately to show trend.

CONCLUSION

These steps test accuracy of the repayment schedule and the value of existing and loan-created assets as security.

[Click for detailed question »](#)[ICAI answer »](#)

PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

Part – I : Academic Update

(Legislative Amendments / Notifications / Circulars / Rules / Guidelines
issued by Regulating Authority)

Chapter 14 - Unit 2 - Special Features of Audit of Non-Banking Financial Companies

1. **Registration Exemption for Certain NBFCs – 2026 Amendment:** On page no 14.90 following amendment may be read as an addendum to Chapter 14 and should be read along with the existing provisions.

While the Registration Directions 2025 themselves introduced no substantive change from the SBR Directions 2023, a subsequent and significant amendment was introduced vide Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 (hereinafter referred to as the "Registration Amendment Directions 2026"), issued on April 29, 2026, effective from July 01, 2026. The Registration Amendment Directions 2026 introduced a three-category definitional framework:

- 1) **Unregistered (Type I – Exempt):** Non-deposit-taking NBFCs with no public funds, no customer interface, and asset size below ₹ 1,000 crore are exempted from the provisions of Sections 45IA and 45IC of the RBI Act. Such existing NBFCs, including those holding a Certificate of Registration as Type I NBFC, can apply for deregistration by December 31, 2026.
- 2) **Type I NBFC (Registered):** Non-deposit-taking NBFCs with no public funds and no customer interface, but with an asset size exceeding ₹ 1,000 crore, continue to require registration.

REVISION TEST PAPERS

FINAL EXAMINATION

- 3) **Type II NBFC (Registered):** NBFCs that avail public funds or have a customer interface, regardless of asset size, continue to require registration.

This is a material departure from the position under the SBR Directions 2023, which did not provide for any such statutory exemption from registration for non-public fund, non-customer-facing NBFCs below the ₹ 1,000 crore threshold.

This deregulation specifically targets micro-NBFCs, private investment vehicles, holding companies, and family offices that previously bore the disproportionate administrative and financial compliance burden of maintaining a CoR simply because their balance sheets mathematically satisfied the 50-50 Test. The new three-tier registration model summary:

Classification Category	Customer Interface Requirement	Acceptance of Public Funds	Asset Size Threshold	RBI Registration Status
Unregistered Type I NBFC	Strictly None	Strictly None (Direct or Indirect)	Less than ₹ 1,000 crore	Exempt from Section 45-IA
Type I NBFC	Strictly None	Strictly None (Direct or Indirect)	Greater than ₹ 1,000 crore	Mandatory (CoR Required)
Type II NBFC	Permitted	Permitted	Any Asset Size	Mandatory (CoR Required)

2. As per the circular DoR.FIN.REC.25/03.10.038/2025-26 dated June 06, 2025, if an NBFC-MFI fails to maintain the criteria specified in following para for four consecutive quarters, it shall approach the Reserve Bank with a remediation plan for taking a view in the matter.

“NBFC-MFI” means a non-deposit taking NBFC which has a minimum of 60 percent of its total assets (netted off by intangible assets), on an ongoing basis, deployed towards “microfinance loans” as defined under

Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.

3. Capital Requirements on page no. 14.92 to be read as:

Every applicable NBFC as defined in the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 shall maintain the minimum capital ratios given below, depending on the layer in which it is placed under the Scale Based Regulation (SBR) framework.

With effect from November 28, 2025 (as updated up to July 01, 2026), the RBI (Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Directions, 2025 prescribe the capital adequacy requirement on a layer-wise basis under the Scale Based Regulation (SBR) framework, summarised below.

- (a) NBFC primarily engaged in lending against gold jewellery (such loans comprising 50 percent or more of its financial assets), irrespective of layer: minimum Tier 1 capital 12 percent and minimum CRAR 15 percent of aggregate risk weighted assets (Tier 2 capital shall not, at any time, exceed 100 percent of Tier 1 capital);
- (b) NBFC – Middle Layer (NBFC-ML) and above (other than gold-jewellery lending NBFCs covered in (a) above): minimum Tier 1 capital 10 percent and minimum CRAR 15 percent of aggregate RWAs (Tier 2 capital $\leq$ 100 percent of Tier 1 capital);
- (c) NBFC – Upper Layer (NBFC-UL): all the requirements at (b) above PLUS a minimum Common Equity Tier 1 (CET1) capital of 9 percent of aggregate RWAs. CET1 is the highest-quality slice of Tier 1 capital – broadly, paid-up equity capital, share premium, statutory/capital/other free reserves and retained earnings, less specified regulatory deductions (e.g. goodwill, intangibles, certain DTAs);
- (d) NBFC – Top Layer: all the requirements at (c) above, PLUS a higher capital charge specifically communicated by the RBI to the NBFC at the time of its classification in the Top Layer; and

- (e) NBFC – Base Layer (other than gold-jewellery lending NBFCs): no specific CRAR/Tier 1 ratio is prescribed under Chapter II of the Directions; however, its Leverage Ratio (Total Outside Liabilities ÷ Owned Fund) shall not exceed 7 at any point of time.

CRAR = (Tier 1 Capital + Tier 2 Capital) ÷ Risk Weighted Assets (RWAs);
Tier 1 Capital Ratio = Tier 1 Capital ÷ RWAs; CET1 Capital Ratio = CET1 Capital ÷ RWAs.

“Tier 1 capital” for NBFCs (except NBFCs-BL) is the sum of

- (i) Owned fund as reduced by investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten percent of the owned fund; and
- (ii) Perpetual debt instruments issued by a non-deposit taking NBFCs in each year to the extent it does not exceed 15 percent of the aggregate Tier 1 capital of such company as on March 31 of the previous financial year.

Notes:

1. NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 1 capital.
2. Common Equity Tier 1 (CET1) capital: CET1 is Tier 1 capital as computed above, further reduced by items such as Perpetual Debt Instruments (PDI) included in Tier 1, goodwill and other intangible assets, specified deferred tax assets, and other regulatory deductions. An NBFC-UL and an NBFC in the Top Layer must additionally maintain CET1 of at least 9 percent of aggregate RWAs [see (c) and (d) above]; this requirement does not apply to NBFC-BL and NBFC-ML.

“Tier 2 capital” for NBFCs (except NBFCs-BL) is the sum of

- (i) Preference shares other than those which are compulsorily convertible into equity;
- (ii) Revaluation reserves at discounted rate of 55 percent;

- (iii) General provisions (including that for Standard Assets) and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and 1.25% of risk weighted assets;
- (iv) Hybrid debt capital instruments;
- (v) Subordinated debt; and

Provided that book value of subordinated debt shall be subject to discounting as provided under

Remaining Maturity of the instruments	Rate of discount
Up to one year	100%
More than one year but up to two years	80%
More than two years but up to three years	60%
More than three years but up to four years	40%
More than four years but up to five years	20%

to the extent such discounted value does not exceed fifty percent of Tier 1 capital; and

- (vi) Perpetual debt instruments issued by a non-deposit taking NBFC which is in excess of what qualifies for Tier 1 capital;

to the extent the aggregate does not exceed Tier 1 capital.

Note – NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 2 capital. For in-depth understanding student may refer the detailed Directions issued by RBI available on https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=12959

4. Addition of ROU Assets to Other Assets definition in Weighted risk assets - On-Balance Sheet items table given on page no 14.94

S. No.	Weighted risk assets – On Balance Sheet Items	Percentage weight
(ii)	(e)(i) Loans to 'High-quality infrastructure projects' as defined in the Reserve Bank of India (Non-Banking Financial Companies - Concentration Risk	75

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	Management) Directions, 2026 and where the borrower has repaid at least 2 per cent of the sanctioned project debt:	
	<p>(ii) Loans to 'High-quality infrastructure projects' as defined in the Reserve Bank of India (Non-Banking Financial Companies - Concentration Risk Management) Directions, 2026 and where the borrower has repaid at least 5 per cent of the sanctioned project debt:</p> <p>Provided that, for Sl. no.(e)(i) and (e)(ii) above, in the event the projects that qualify as High-quality infrastructure projects subsequently fail to meet these conditions, they shall be subject to risk weights prescribed under Sr. no.3(e) or (g), as applicable, of this table.</p> <p>Provided further that for Sl. no.(e)(i) and (e)(ii) above the repayment threshold should be determined based on the sanctioned project debt. Additional debt, if any, sanctioned as a part of takeover of the loan or otherwise should be clubbed with previous loan(s) sanctioned against the project assets and/or cash flows to determine the repayment threshold.</p> <p>Provided further that, in case of exposures attracting a lower risk weight under the guidelines applicable up to March 31, 2026, but will be subject to higher risk weights in terms of Sl. no. (e)(i) and (e)(ii) above, NBFCs can continue to maintain the extant risk weights till the next review / renewal or March 31, 2027, whichever is earlier.</p>	50
(v)	<p>Other assets:</p> <p>(d) Others (to be specified) including ROU assets</p>	100

5. On page no. 14.99, Standard asset provisioning to be read as

Standard Asset Provisioning – NBFC-ML: NBFC-ML shall make provisions for standard assets at 0.40 percent of the outstanding (including microfinance loans), which shall not be reckoned for arriving at net NPAs.

Standard asset provisioning – NBFC-UL (category-wise): Individual housing loans / loans to SMEs – 0.25%; housing loans at teaser rates – 2.00% (decreasing to 0.40% one year after reset, if still 'standard'); advances to CRE-RH – 0.75%; advances to CRE (other than CRE-RH) – 1.00%; restructured advances – as per the Resolution of Stressed Assets Directions, 2025; all other loans/advances (incl. Medium Enterprises) – 0.40%.

Illustration: An NBFC-UL has the following 'standard' assets outstanding: individual housing loans ₹ 200 crore; CRE (other than CRE-RH) advances ₹ 50 crore; and other loans ₹100 crore. Standard asset provision = $(200 \times 0.25\%) + (50 \times 1.00\%) + (100 \times 0.40\%) = ₹ 0.50 \text{ crore} + ₹ 0.50 \text{ crore} + ₹ 0.40 \text{ crore} = ₹ 1.40 \text{ crore}$.

The above regulatory requirements are to be amended in a phased manner under the Scale- Based Regulation prescribed by RBI for NBFCs.

Students may note that (a) an NBFC may factor in Default Loss Guarantee (DLG) cover while computing Ind AS Expected Credit Loss provisions, subject to conditions; and (b) on implementation of a resolution plan under Chapter VI-A of the Resolution of Stressed Assets Directions, 2025, an additional specific provision of 5% of the outstanding debt is required per instance of restructuring (capped at 100%), written back once the borrower repays at least 20% without slipping back into NPA.

[Students may refer Master Direction – Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025 for detailed guidelines on prudential norms relating to Non-Banking Financial Companies covered in these Directions.]

Chapter 19- Professional Ethics & Liabilities of Auditors**1. On page no. 19.68 amendment in Clause (9) of Part I of First Schedule**

Clause (9) accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 225 of the Companies Act, 1956 (1 of 1956), or sections 139 to 141 of the Companies Act, 2013 or any other law pertaining to appointment of auditors for the time being in force, in respect of such appointment have been duly complied with;

2. On page no. 19.109 insertion of Clause (5) in Part II of Second Schedule

Clause (5) acts as an auditor of the company in contravention of the provisions of the Companies Act, 2013.

3. On Page no 19.111, Chapter VI to be read as

In order to ensure the quality of tax audit, the Council of the Institute has decided the limit on the number of tax audits, to be effected by issuance of new guidelines, as follows –

- (i) the existing limit of 60 tax audit assignments per member to be retained, but the same shall be in respect of tax audit assignments in a particular financial year.
- (ii) the said limit of 60 would be the aggregate limit in respect of all tax audits accepted and signed by a member, both in his individual capacity and as a partner of a firm(s). In other words, an individual member cannot sign more than 60 tax audit reports in a financial year.
- (iii) the limit on number of tax audit assignments per partner in a CA Firm cannot be distributed/or shared between the partners.
- (iv) the limit of 60 would, however, not apply to tax audit assignments arising out of the requirements under clause (c), clause (d) and clause (e) of section 44AB, in relation to persons covered under section 44AE, 44ADA and 44AD, respectively.
- (v) in the case of revision of tax audit report, the revised tax audit report shall not be taken into account for the purpose of reckoning the said limit of 60.

Part – II: Questions and Answers



QUESTIONS

PART A: Multiple Choice Questions

Integrated Case Scenarios

PNBM & Associates, Chartered Accountants, is a firm comprising four partners. Chetan, one of its partners, had accepted and signed 68 tax audit reports under Section 44AB of the Income-tax Act, 1961, excluding tax audits covered under Sections 44AD, 44ADA and 44AE. When this came to light, Chetan justified his action by stating that since the firm had 4 partners, the firm's aggregate ceiling was 240 tax audits, and therefore any partner could sign more than 60 reports if the firm's overall ceiling was not exceeded.

PNBM & Associates also serves as the statutory auditor of Solaris Renewables Ltd., a listed company, for the year ended March 31, 2026. During the course of the audit, the engagement team observed the following matters:

- (i) CA Priya is employed as the Chief Financial Officer of Solaris Renewables Ltd. During assessment proceedings, she appeared before the Income-tax authorities as the company's authorised representative. Subsequently, a fellow employee of the company, Mr. Karan, asked Priya to represent him in his personal income-tax assessment, and she agreed to do so.
- (ii) During the audit, the audit team observed that Solaris Renewables Ltd. had early adopted a new Ind AS, which would otherwise become mandatory from April 1, 2027. Such early adoption was permitted under the applicable regulatory framework. The early adoption had a material effect on the financial statements and was adequately disclosed in the notes to accounts. The audit team performed appropriate procedures and concluded that the accounting treatment adopted was appropriate.
- (iii) As part of the audit of accounts receivable, the firm sent positive confirmation requests to Solaris Renewables Ltd.'s top 60 customers, whose balances represent 70% of total receivables. Positive confirmation requests were also sent to banks to confirm balances held and

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outstanding loans. In addition, negative confirmation requests were sent to 180 small suppliers with low-value account balances.

The following events occurred during the confirmation process:

- (1) Out of the 60 positive confirmation requests, 15 responses confirmed agreement with the stated balances, 5 responses reported discrepancies, and 40 customers did not respond at all.
- (2) One of the responses to a positive confirmation appears unreliable due to discrepancies in the customer's letterhead and inconsistent information that did not match the customer's usual correspondence.
- (3) 120 negative confirmation requests receive no responses.
- (4) In the case of non-response, the audit team examined subsequent cash receipts/payments, correspondence, and goods received/dispatch records as alternative evidence.

Based on the above facts, answer the following MCQs:

1. With reference to the provisions of the Chartered Accountants Act, 1949 and the applicable ceiling on tax audit assignments, whether Chetan is guilty of professional misconduct?
 - (a) No, Chetan is not guilty, as the aggregate limit for the firm is 240 tax audits, and any partner may sign beyond 60 reports if the firm's overall limit is not exceeded.
 - (b) Yes, Chetan is guilty of professional misconduct, as the ceiling of 60 tax audit reports is applicable individually to each member, irrespective of the number of partners in the firm.
 - (c) No, Chetan is not guilty, as corporate and non-corporate tax audits are counted separately for determining the ceiling applicable to a member.
 - (d) No, Chetan is not guilty, as the ceiling is determined with reference to the tax audit assignments undertaken by the firm and the number of partners associated with the firm.

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2. In relation to Priya's representation before the Income-tax authorities, which of the following is correct?
 - (a) Priya is permitted to represent both Solaris Renewables Ltd. and Karan, since both are connected with the same employer and the representation arises in the course of their employment.
 - (b) Priya is permitted to represent Karan in his personal income-tax proceedings, since a Chartered Accountant in employment may undertake such representation for another employee without affecting her employment with the company.
 - (c) Priya is permitted to appear as the tax representative of her employer, Solaris Renewables Ltd., but is not permitted to represent Karan in his personal income-tax proceedings; such representation would amount to professional misconduct.
 - (d) Priya is not permitted to appear before the Income-tax authorities even on behalf of Solaris Renewables Ltd., since a Chartered Accountant in service is prohibited from acting as a tax representative.

3. Considering the circumstances relating to the early adoption of Ind AS, how should the matter be dealt with in the auditor's report?
 - (a) The matter should be included under Other Information, as the early adoption relates to information that is relevant to users of the financial statements but does not form part of the financial statements.
 - (b) The matter should be reported as a Key Audit Matter, as the early adoption had a material effect on the financial statements and required significant attention from the audit team.
 - (c) The matter should be reported in Other Matter paragraph, since early adoption of an accounting standard represents information that is fundamental to users' understanding of the financial statements.
 - (d) The matter may be highlighted through an Emphasis of Matter paragraph, since the early adoption has a material effect, is

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appropriately accounted for and is adequately disclosed in the financial statements.

4. Assume, contrary to the facts given, that the early adoption of the new Ind AS was not adequately disclosed in the notes to accounts, even though the auditors still regarded the accounting treatment itself as appropriate. How would this change the reporting requirement?
 - (a) The auditor would issue a qualified or adverse opinion for material misstatement, since an Emphasis of Matter paragraph can only be used for a matter that is already adequately disclosed, inadequate disclosure is itself a misstatement, not a basis for such a paragraph.
 - (b) The auditor would still issue an Emphasis of Matter paragraph, since its purpose is precisely to draw attention to matters that have not been adequately disclosed by management.
 - (c) The auditor would issue an Emphasis of Matter paragraph and separately note within it that the related disclosure was inadequate, without any change to the opinion.
 - (d) The auditor would instead report the matter as a Key Audit Matter, since inadequate disclosure automatically elevates any matter into one of most significance in the audit.
5. Which of the following is the most appropriate for PNBM & Associates in response to the events that occurred when performing external confirmation procedures to obtain relevant and reliable audit evidence in accordance with relevant Standard on Auditing?
 - (a) The failure to receive a response to a negative confirmation request explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request.
 - (b) Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is in their favour, and less likely to respond otherwise.

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- (c) Non-response for negative confirmation does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.
- (d) The auditor shall use negative confirmation requests as the sole substantive audit procedure when he is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

Independent MCQs

6. A large infrastructure company, Vikas Constructions Ltd., is developing an industrial corridor project in a semi-rural area. The project involves land acquisition, construction activities, and possible relocation of a small local settlement. The company aims to align its actions with Principle 8 – Promote Inclusive Growth and Equitable Development.

During the ESG compliance and CSR strategy meeting, the sustainability director proposes several actions to align the project with Principle 8. However, the internal audit team observes that one of the proposed actions is not consistent with the core elements of this principle.

Which of the following actions is not aligned with Principle 8?

- (a) The entity should have systems in place to identify and address impacts of its activities on the social, cultural, and economic aspects of the people, including issues like land acquisition and construction activities for new facilities.
- (b) The entity should review, measure, and track the adverse impacts of its activities on society and environment and make action plans to mitigate them adequately.
- (c) The entity should ensure that business decisions primarily focus on maximising economic efficiency even if it results in business induced displacement or relocation of communities, without requiring participative or informed negotiations.
- (d) The entity should make efforts to bring up creative products, technologies, and business concerns that help marginalized communities to have well-being and a better quality of life.

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7. A bank proposes to shift certain Government securities from the "Available for Sale" (AFS) category to the "Held to Maturity" (HTM) category. The securities satisfy the conditions for classification as HTM, and the ALCO has approved the proposed shift. However, no approval of the Board of Directors has been obtained. The management contends that the absence of Board approval should not affect the classification since the securities otherwise qualify for HTM. Which of the following is the most appropriate treatment?
- (a) The securities may be classified as HTM, since compliance with the eligibility conditions for HTM is the primary requirement and the approval of ALCO provides adequate internal authorisation for the transfer.
 - (b) The securities cannot be transferred to HTM merely on the basis of ALCO approval, since the prescribed approval requirements for such transfer must be complied with in addition to the eligibility conditions for HTM classification.
 - (c) The securities may be classified as HTM if the bank discloses the absence of Board approval and demonstrates that its intention to hold the securities until maturity existed at the time of their original acquisition.
 - (d) The securities should continue to be classified as AFS only for the year of transfer and may thereafter be classified as HTM once the Board subsequently approves the transfer.
8. During the statutory audit of Kavya Industries Ltd. for the year ended March 31, 2026, the auditor completed the audit of the financial statements and was in the process of finalising the auditor's report. The company's annual report also contained a Directors' Report, which was not part of the audited financial statements.

Before the date of the auditor's report, while reading the Directors' Report, the auditor noted that it stated that the company's revenue had increased by 22% during the year, whereas the audited financial statements showed that revenue had increased by only 9% over the previous year. The auditor confirmed that the figures and disclosures in

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the audited financial statements were correct and that the difference arose solely from an incorrect statement in the Directors' Report.

In the above circumstances, which of the following is the most appropriate course of action for the auditor?

- (a) Modify the audit opinion on the financial statements, since the inconsistency between the Directors' Report and the audited financial statements represents a material misstatement affecting the annual report.
- (b) Request management to correct the Directors' Report and, if management refuses and the auditor concludes that the other information is materially misstated, communicate the matter to those charged with governance and consider the implications for the auditor's report in accordance with SA 720.
- (c) Take no further action, since the Directors' Report is outside the financial statements and the auditor's responsibility under SA 720 does not extend to information contained in the annual report other than the financial statements.
- (d) Withdraw from the audit engagement, since management's refusal to correct a material misstatement in the Directors' Report constitutes a scope limitation that prevents the auditor from expressing an opinion on the financial statements.

PART B: DESCRIPTIVE QUESTIONS**Standards on Auditing, Statements and Guidance Notes****Audit Planning, Strategy & Execution**

9. During the statutory audit of KPK Manufacturing Ltd., the engagement partner noted that the company has a well-established and effective internal audit function. The internal auditors have recently completed the following assignments:
- Testing of the operating effectiveness of internal controls over the purchase and payment cycle.
 - Observed the year end physical inventory count at various warehouses.

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- Determined the materiality for the audit of the financial statements.
- Verified compliance with applicable environmental and labour regulations.
- Evaluated the appropriateness of management's assumptions used in estimating the provision for pending litigation.
- Reviewed the financial information of a small overseas subsidiary that is not a significant component of the group.
- Decided the nature, timing and extent of substantive audit procedures to be performed for revenue recognition and drafted the proposed audit opinion on the financial statements.

The engagement partner proposes to use the work of the internal audit function extensively with a view to reduce the extent of external audit procedure. As the statutory auditor, analyse each of the above areas and identify which assignments can be used and which cannot be used by the external auditor as per relevant Standard on Auditing.

Completion and Review

10. While conducting the audit of LML Ltd., the auditor, CA Hema, observed a continuous decline in revenues, significant operating losses, and delays in repayment of bank dues during the year. The company is also facing difficulty in obtaining further financing, and a major portion of its customers have shifted to competitors. Management has prepared cash flow forecasts and is confident of turning around the business through cost-cutting measures and proposed funding arrangements.

However, the auditor has concerns regarding the reliability of the assumptions used in the forecasts and the feasibility of management's plans. The financial statements include a note disclosing these circumstances.

The auditor is in the process of concluding the audit and forming an opinion on the financial statements.

Analyse the matters that the auditor should consider in the above situation and discuss the implications for the auditor's report, with reference to relevant auditing standards.

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11. CA Ravi is the Statutory Auditor of Rajhans Textiles Ltd., a listed company, for the financial year 2025-26. During the audit, the following matters came to the auditor's attention:

- (i) The company has granted a loan of ₹5 crore to its subsidiary. No repayment schedule has been stipulated and no repayment has been received during the year.
- (ii) The company had availed a term loan of ₹ 50 crore from a consortium of banks. During the year, the company defaulted in repayment of instalments aggregating to ₹ 6 crore for a period of 95 days. However, the default was subsequently cleared before the balance sheet date.
- (iii) The company has an outstanding Income-tax demand of ₹ 2 crore, which is disputed before the appellate authority. The amount has been appropriately disclosed in the financial statements.

Examine each of the above situations and state how CA Ravi should report the same under CARO 2020.

Specialised Areas

12. JKL Ltd. has published a set of condensed financial information for its shareholders, summarizing its audited financial statements for the year. The summary financial statements have been circulated independently and are not accompanied by the complete audited financial statements. The management has stated that the full financial statements are available upon request at the company's registered office.

The auditor has been engaged to report on these summary financial statements. While reviewing the same, the auditor noted that the level of aggregation appears quite high, certain disclosures regarding the basis of preparation are unclear, and there is limited reference to the audited financial statements.

In the given circumstances, discuss the procedures that the auditor should consider while forming an opinion on such financial information.

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13. Luck & Associates, a firm of Chartered Accountants, was approached by Best Ltd. to undertake a review of its financial statements. During initial discussions, the engagement partner observed certain issues such as possible limitations on the scope of work, concerns regarding availability and reliability of information, and doubts about management's integrity. Further, the engagement was proposed to meet certain regulatory expectations, though it was unclear whether a review would be appropriate in the given circumstances. The firm also needs to evaluate its ability to comply with ethical requirements, including independence.

Discuss the considerations that the practitioner should evaluate in the above situation before accepting/proceeding with the engagement.

Prospective Financial Information and Other Assurance Services

14. Mr. B, a Chartered Accountant in practice, has been approached by ABC Ltd. to examine and report on its prospective financial information prepared for the purpose of raising finance from investors. The management intends to circulate the information widely.

During initial discussion, CA B notices that certain assumptions used in the preparation of such information appear to be unrealistic. He is also uncertain about the reliability of historical financial data and the exact purpose and scope of circulation of such information.

CA B is considering whether to accept the engagement and, if so, what are the factors he should evaluate before doing so?

Digital Auditing and Assurance

15. CA Jiya was conducting a remote audit of Nova Ltd. using an online document-sharing platform. To expedite the audit process, the company granted unrestricted access to all employees and auditors on the platform. During the audit, CA Jiya downloaded several documents and retained them on the shared platform even after completing her review.

While discussing audit observations through a video conference, she took screenshots of employees appearing on the screen as evidence of discussions without obtaining prior consent. She also captured screenshots of certain confidential company records without seeking

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authorization from the auditee. Further, while accessing the company's ERP system from her home office, she logged in through a public internet connection without using a Virtual Private Network (VPN).

The management of Nova Ltd. later raised concerns regarding confidentiality, security, and data protection practices followed during the audit.

Discuss the security, confidentiality, and data protection concerns arising from the above situation. What safeguards and controls should an auditor implement while conducting a remote or digital audit to ensure protection of client information and compliance with applicable regulations?

Group Audits

16. CA Ananya has been appointed as the statutory auditor of PQR Ltd. (the parent company) as well as of every subsidiary, wholly owned and partly owned, within the PQR group. While finalising the audit of the Consolidated Financial Statements (CFS) for the year ended March 31, 2026, she notices that although the CFS are broadly compliant with the applicable consolidation Accounting Standards, one subsidiary's figures have not been adjusted in the manner required by the standard. This omission constitutes a material departure from the prescribed consolidation principles.

CA Ananya brought the matter to the attention of management and requested the necessary adjustments. However, management refused to revise the CFS (i.e., Consolidated Balance Sheet, Consolidated Statement of Profit and Loss and Consolidated Cash Flow Statement) stating that the impact was limited to a single subsidiary and did not affect the overall presentation significantly.

Discuss the responsibilities of CA Ananya as auditor of the CFS in the given situation, and the course of action she must adopt while framing her audit opinion.

Special Features of Audit of Banks & Non-Banking Financial Companies

17. XYZ Investments Pvt. Ltd. is a company incorporated under the Companies Act, 2013, engaged solely in acquiring and holding shares and debentures of group companies as an investment activity. It does

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not accept public deposits, does not avail public funds, has no customer interface and does not intend to avail public funds or have customer interface as part of its business model. Its total asset size as per the latest audited balance sheet is ₹ 850 crore. The company had earlier obtained a Certificate of Registration (CoR) from the RBI as a NBFC-BL under the SBR Directions, 2023, since its financial assets and financial income satisfied the 50-50 Test.

The statutory auditor of XYZ Investments Pvt. Ltd., while planning the audit for FY 2026-27, is examining the applicability of the Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation Amendment Directions, 2026 to the company.

Examine, with reasons, whether XYZ Investments Pvt. Ltd. is required to continue holding a Certificate of Registration under the RBI Act, 1934, in light of the Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation Amendment Directions, 2026. What compliance requirements and exit option, if any, are available to XYZ Investments Pvt. Ltd.?

Overview of Audit of Public Sector Undertakings

18. The Comptroller and Auditor General has initiated a performance audit of a large government programme aimed at rural infrastructure development. The audit team has been assigned the task of planning the audit. During initial discussions, it was observed that the programme is implemented across multiple ministries and has been operational for several years. The scheme has also attracted attention in parliamentary discussions and media reports due to concerns about its efficiency and outcomes.

The audit team is considering various sources such as internal records of the implementing agencies, legislative discussions, reports of committees, prior audit findings, independent research studies, and inputs from stakeholders to develop a comprehensive understanding of the programme before finalising the audit plan.

Identify the stage of the performance audit process represented in the above scenario. Further discuss how the various sources of information

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referred to above assist the audit team in developing an in-depth understanding of the entity/programme for effective audit planning.

Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance

19. Green Limited, engaged in electric vehicle manufacturing has recently expanded its operations in multiple states. During the audit, the auditor noted the following:

- The company faces litigation for alleged environmental violations.
- Management has highlighted sustainability achievements through press releases and investor presentations.
- Certain climate-related risks have been disclosed in the Board's Report, but similar disclosures are absent from the financial statements.

Discuss the auditor's responsibilities in evaluating the above matters while completing the audit of the financial statements.

Professional Ethics & Liabilities of Auditors

20. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto in the following situation:

- (a) CA Anshul is appointed as the statutory auditor of Rise Ltd. During the audit, he obtained details of significant litigation, regulatory investigations, and tax disputes of the company. The Managing Director of the company requested him to share certain audit working papers and internal findings with the company for the purpose of internal restructuring.
- (b) Mr. Raman is a Chartered Accountant in practice holding a Certificate of Practice. He is also enrolled as an advocate after obtaining the requisite permission from the Bar Council. While appearing before the High Court in a tax litigation matter, he files the vakalatnama and appears using the designation "CA Raman, Chartered Accountant & Advocate." He also uses both designations on his visiting card and letterhead for his advocacy practice.

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SUGGESTED ANSWERS

PART A: Answers to Multiple Choice Questions

Question No.	Answer
1.	(b)
2.	(c)
3.	(d)
4.	(a)
5.	(c)
6.	(c)
7.	(b)
8.	(b)

PART B: Answers to Descriptive Questions

9. As per SA 610, "Using the Work of Internal Auditors", work of the internal audit function that can be used by the external auditor include the following:
- Testing of the operating effectiveness of controls.
 - Substantive procedures involving limited judgment.
 - Observations of inventory counts.
 - Tracing transactions through the information system relevant to financial reporting.
 - Testing of compliance with regulatory requirements.
 - In some circumstances, audits or reviews of the financial information of subsidiaries that are not significant components to the group (where this does not conflict with the requirements of SA 600).

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Work performed by Internal Audit Function	Can the External Auditor Use the Work?
Tested the operating effectiveness of internal controls over the purchase and payment cycle.	Yes
Observed the year end physical inventory count at various warehouses.	Yes
Determined the materiality for the audit of the financial statements.	No
Verified compliance with applicable environmental and labour regulations.	Yes
Evaluated the appropriateness of management's assumptions used in estimating the provision for pending litigation	No
Reviewed the financial information of a small overseas subsidiary that is not a significant component of the group.	Yes
Decided the nature, timing and extent of substantive audit procedures to be performed for revenue recognition and drafted the proposed audit opinion on the financial statements.	No

Accordingly, the engagement partner's proposal to rely extensively on all the work of the internal audit function is not appropriate. The external auditor must independently perform and conclude on areas involving significant professional judgment and remain solely responsible for expressing the audit opinion.

- 10.** As per SA 570, "Going Concern", if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

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through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:

- (a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
- (b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
- (c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:
 - (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
 - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
- (d) Considering whether any additional facts or information have become available since the date on which management made its assessment.
- (e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

In the given case, CA Hema has observed such points that may cast significant doubt on the entity's ability to continue as a going concern. Therefore, CA Hema should follow audit procedures such as:

- Review of management's assessment of the company's ability to continue as a going concern.
- Examine and challenge the reasonableness of the company's cash flow forecasts and key assumptions.

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- Review events after the reporting period that might affect the going concern assumption, such as further financial deterioration or inability to secure financing.
- Analysis of the company's key financial ratios and compliance with loan agreements to assess liquidity and solvency.
- Review of the company's challenges and efforts to secure additional financing and the reasons for the bank's reluctance to provide further credit.
- Assess the impact of declining customer base, delayed payments, and other operational challenges on the company's ability to continue as a going concern.

Further, as per SA 570 if adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:

- (a) Draw attention to the note in the financial statements that discloses the matters set out in above; and
- (b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

11. (i) **Loan granted to Subsidiary:** As per Clause (iii)(a)(A) of Paragraph 3 of CARO 2020, the auditor is required to report, inter alia, whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;

Further, as per Clause (iii)(c) of Paragraph 3 of CARO 2020, the auditor is required to report in respect of loans and advances in

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the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

Furthermore, as per Clause (iii)(f) of Paragraph 3 of CARO 2020, the auditor is required to report, whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013.

In the given case, the company has granted a loan of ₹ 5 crore to its subsidiary, for which no repayment schedule has been stipulated and no repayment has been received during the year. Accordingly, CA Ravi should make appropriate reporting under Clause (iii)(a)(A), Clause (iii)(c), Clause (iii)(f) of Paragraph 3 of CARO 2020.

- (ii) **Default in repayment of Loans/Borrowings:** As per Clause (ix)(a) of Paragraph 3 of CARO 2020, where the company has defaulted in repayment of loans or other borrowings, the auditor is required to report the amount of default and the period of default, along with lender-wise details.

In the given case, the company had availed a term loan of ₹ 50 crore from a consortium of banks and defaulted in repayment of instalments aggregating to ₹6 crore for a period of 95 days. Although the default was subsequently cleared before the balance sheet date, the default had occurred during the year. Accordingly, CA Ravi should report the amount of default of ₹ 6 crore and the period of default of 95 days, lender-wise, under Clause (ix)(a) of Paragraph 3 of CARO 2020.

- (iii) **Disputed Income-tax Demand:** As per Clause (vii)(b) of Paragraph 3 of CARO 2020, the auditor is required to report the amounts of statutory dues not deposited on account of disputes, along with the nature of the dues and the forum where the dispute is pending.

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In the given case, the company has an outstanding Income-tax demand of ₹ 2 crore, which is disputed before the appellate authority and has been appropriately disclosed in the financial statements. Accordingly, CA Ravi should report the amount of ₹ 2 crore, nature of the dues and the forum where the dispute is pending under Clause (vii)(b) of Paragraph 3 of CARO 2020.

- 12.** As per SA 810, "Engagements to Report on Summary Financial Statements", the auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:
- (a) Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.
 - (b) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
 - (i) From whom or where the audited financial statements are available; or
 - (ii) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
 - (c) Evaluate whether the summary financial statements adequately disclose the applied criteria.
 - (d) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.
 - (e) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
 - (f) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the

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information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

- (g) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements as discussed already.

13. As per SRE 2400, "Engagements to Review Historical Financial Statements", factors affecting Acceptance and Continuance of Client Relationships and Review Engagements: Unless required by law or regulation, the practitioner shall not accept a review engagement if:

- (a) The practitioner is not satisfied:
 - (i) That there is a rational purpose for the engagement. Assurance engagements may only be accepted when the engagement exhibits certain characteristics that are conducive to achieving the practitioner's objectives specified for the engagement.

It may be unlikely that there is a rational purpose for the engagement if, for example, there is a significant limitation on the scope of work or the practitioner suspects association of the practitioner's name with the financial statements in an inappropriate manner. Similarly, when the engagement is intended to meet compliance requirements of relevant law or regulation and such law or regulation requires the financial statements to be audited, there is no rational purpose for such a review engagement.

- (ii) That a review engagement would be appropriate in the circumstances. When the practitioner's preliminary understanding of the engagement circumstances indicates that accepting a review engagement would not be appropriate, the practitioner may consider recommending that another type of engagement be undertaken. Depending on the circumstances, the practitioner may, for example,

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believe that performance of an audit engagement would be more appropriate than a review. In other cases, if the engagement circumstances preclude the performance of an assurance engagement, the practitioner may recommend a compilation engagement, or other accounting services engagement, as appropriate.

- (b) The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied.
 - (c) The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable.
 - (d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review or
 - (e) Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes that the limitation will result in the practitioner disclaiming a conclusion on the financial statements.
- 14.** As per SAE 3400, "The Examination of Prospective Financial Information", before accepting an engagement to examine prospective financial information, CA B, the auditor would consider, amongst other things:
- The intended use of the information;
 - Whether the information will be for general or limited distribution;
 - The nature of the assumptions, that is, whether they are best estimates or hypothetical Assumptions;
 - The elements to be included in the information; and
 - The period covered by the information.

Further, the auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial information will be inappropriate for its intended use. The auditor should consider the extent to which reliance on the entity's historical financial information is justified.

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Like in other engagements, it is necessary that terms of engagements should be agreed with client by sending an engagement letter.

- 15. Confidentiality, Security and Data Protection:** To ensure data security and confidentiality, access to document sharing platform should be sufficiently restricted and secured by encrypting the data that is sent across the network. The information, once reviewed and documented by auditor, is removed from the platform, and stored according to applicable archiving standards and data protection requirements.

Auditors should take into consideration legislation and regulations, which may require additional agreements from both sides (e.g., there will be no recording of sound and images, or authorizations to using people's images). Auditors should not take screenshots of auditees as audit evidence. Any screenshots of documents or records or other kind of evidence should be previously authorized by the audited organization. In case of accessing the auditee's IT system auditor should use VPN (Virtual private network). VPN is a service which creates safe and encrypted online connections. It prevents unauthorized users to enter into network and allows the users to perform work remotely.

In the given case, CA Jiya failed to adhere to several important requirements relating to confidentiality, security, and data protection during a digital audit.

Therefore, the auditor's actions of using an unsecured platform, retaining reviewed information on the platform, taking unauthorized screenshots, and accessing the auditee's systems without a VPN are inconsistent with the principles of confidentiality, security, and data protection applicable to digital audits.

- 16. When the Parent's Auditor is also the Auditor of all its Components:** In the given case, CA Ananya is the statutory auditor of both the parent company, PQR Ltd., and all its subsidiaries. Accordingly, she needs to consider the following:
- While drafting the audit report, the auditor should report whether principles and procedures for preparation and presentation of consolidated financial statements as laid down in the relevant accounting standards have been followed.

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In case of any departure or deviation, the auditor should consider the requirements given in SA 705, "Modifications to the Opinion in the Independent Auditor's Report" in the audit report so that users of the consolidated financial statements are aware of such deviation.

- Auditor should issue an audit report expressing an opinion whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as on balance sheet date and as to whether consolidated profit and loss statement gives true and fair view of the results of consolidated profit or losses of the Group for the period under audit.
- Where the consolidated financial statements also include a cash flow statement, the auditor should also give his opinion on the true and fair view of the cash flows presented by the consolidated cash flow statements.

In view of above, being an auditor of PQR the parent company and all its subsidiaries, CA Ananya is required to consider whether the principles and procedures prescribed for the preparation and presentation of the CFS under the applicable Accounting Standards have been followed. In the given case, the required consolidation adjustments relating to one subsidiary have not been incorporated, resulting in a material departure from the applicable accounting principles. Since management has refused to make the necessary adjustments, CA Ananya should consider the effect of the resulting misstatement on the CFS and apply the requirements of SA 705, Modifications to the Opinion in the Independent Auditor's Report, as appropriate.

The fact that the departure relates to only one subsidiary does not, by itself, relieve the auditor of the responsibility to report its effect on the CFS. The auditor should evaluate the materiality and pervasiveness of the resulting misstatement to determine the appropriate modification of opinion.

Accordingly, CA Ananya should:

- evaluate the effect of the unadjusted consolidation adjustment on the CFS;

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- consider the requirements of SA 705 and determine the appropriate modified opinion, wherever required;
- clearly state the nature of the departure and its effect in the audit report, as applicable; and
- express an opinion on whether the CFS give a true and fair view of the state of affairs of the Group as at the balance sheet date and of its consolidated profit or loss for the period.

Further, she should also express an opinion on whether the consolidated cash flows give a true and fair view in accordance with the applicable framework considering the fact that the CFS also include a Consolidated Cash Flow Statement.

Thus, CA Ananya cannot ignore the material departure merely because it relates to a single subsidiary. She must assess its materiality and pervasiveness and modify her opinion in accordance with SA 705, if the uncorrected misstatement warrants such modification.

- 17. Registration status of XYZ Investments Pvt. Ltd.:** Section 45-IA of the Reserve Bank of India Act, 1934 provides, inter alia, that an NBFC is required to obtain a Certificate of Registration (CoR) from the RBI for carrying on the business of a non-banking financial institution, subject to the exemptions provided under the applicable regulatory framework.

The Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 introduced the framework for an “Unregistered Type 1 NBFC”.

An NBFC which, subject to fulfilment of the prescribed conditions:

- does not avail public funds;
- does not have any customer interface;
- has an asset size of less than ₹1,000 crore; and
- operates on this basis as a conscious and long-term business model,

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is eligible for exemption from the requirement of registration under Sections 45-IA and 45-IC of the RBI Act, 1934.

The prescribed conditions also include, inter alia, passing an annual Board resolution confirming that the NBFC will not avail public funds and will not have customer interface during the financial year and making the prescribed disclosure in the Notes to Accounts.

In the present case, XYZ Investments Pvt. Ltd.:

- does not avail public funds;
- has no customer interface;
- does not intend to avail public funds or have customer interface as part of its business model; and
- has an asset size of ₹850 crore, which is below ₹1,000 crore.

Accordingly, subject to fulfilment of the prescribed conditions, XYZ is eligible to fall within the category of Unregistered Type 1 NBFC and avail the exemption from registration.

However, XYZ Investments Pvt. Ltd. already holds a CoR. Its CoR does not automatically cease to be effective merely because it satisfies the conditions for exemption.

The Amendment Directions provide an exit mechanism for existing NBFCs which become eligible for the exemption. Accordingly, XYZ Investments Pvt. Ltd. may apply to the RBI for deregistration/surrender of its CoR within the prescribed timeline, i.e., by December 31, 2026, subject to the applicable conditions and RBI's approval.

Therefore, XYZ Investments Pvt. Ltd. should:

- ensure that it satisfies the conditions prescribed for an Unregistered Type 1 NBFC;
- pass the prescribed annual Board resolution;
- make the prescribed disclosure in the Notes to Accounts; and
- if it wishes to exit the regulatory registration framework, apply to the RBI for deregistration/surrender of its CoR within the prescribed timeline.

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Thus, XYZ Investments Pvt. Ltd. is eligible to avail the exemption applicable to an Unregistered Type 1 NBFC, subject to fulfilment of the prescribed conditions. However, its existing CoR does not automatically lapse. It may avail the prescribed deregistration mechanism to surrender the CoR.

- 18.** The activities described in the case represent the initial stage of planning a performance audit, commonly referred to as understanding the entity/programme. It is the starting point for planning individual performance audit.

The auditor may use the following sources for understanding the entity:

- (i) Documents of the entity: Documents on administration and functions of the entity, policy files, annual reports, budget documents, accounts, minutes of meetings, information on the website, internal audit reports, electronic databases and MIS reports, RTI material etc.
- (ii) Legislative documents: Legislation, parliamentary questions and debates, reports of the Public Accounts Committee, the Committee on Public Undertakings, the Estimates Committee and letters from Members of Parliament.
- (iii) Policy documents: Documents of Planning Commission, Ministry of Finance etc.
- (iv) Academic or special research: Independent evaluations on the entity, academic research and similar work done by other governments and other SAs.
- (v) Past audits: Past financial and performance audits of the entity provide a major source of information and understanding.
- (vi) Media coverage: Print and electronic media - their systematic documentation on regular basis in a transparent manner.
- (vii) Special focus groups: Audit Advisory Committee concerns, annual and special reports of World Bank, Reserve Bank of India, reports by special interest groups, NGOs, etc.

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- 19.** The role of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, to enable auditor to report whether the financial statements are prepared and presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

In developing the understanding of an entity, the auditor should include the consideration of climate-related risks and how these risks may be relevant to the audits. The climate-related risks could be more relevant in certain sectors or industries, e.g., banks and insurance, energy, transportation, materials and buildings, agriculture, food, and forestry products.

Many investors and stakeholders are seeking information from auditor's reports about how climate-related risks were addressed in the audit. With this increased user focus on climate change, auditor need to be aware of, and may face, increasing pressure for transparency about climate matters in our auditor's reports. However, the auditor's reports must follow the requirements of applicable auditing standards.

The auditor's report is a key mechanism of communication to users about the audit that was performed. In addition to the audit opinion, it provides information about auditor's responsibilities and, when required, an understanding of the matters of most significance in our audit and how they were addressed.

In some circumstances, it may warrant inclusion of an Emphasis of matter paragraph to draw attention to disclosures that are of fundamental importance to users' understanding of the financial statements. The auditor should also determine whether the entity has appropriately disclosed relevant climate-related information in the financial statements in accordance with the applicable financial reporting framework e.g., Indian Accounting Standards or Accounting Standards, when relevant before considering climate-related matters in the auditor's report.

The auditor should also read the other information for consistency with information disclosed in the financial statements and information that may be publicly communicated to stakeholders outside the financial

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statements, such as management report narratives in the annual report, press releases, or investor updates. This is a requirement under ISA 720 and SA 720, The Auditor's Responsibilities Relating to Other Information.

- 20. (a)** As per Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him without the consent of his client or otherwise than as required by any law for the time being in force.

An accountant in public practice has access to a great deal of information of his client, which is of a highly confidential character. It is important that he should treat such information as having been provided to him only to facilitate the performance of his professional duties. To divulge such information would be a breach of professional confidence. The accountant's duty not to disclose continues even after completion of his assignment.

If disclosure is required as a part of performance of professional duty, the fact that such performance is required by the client would itself amount to the client consenting to such disclosure. In all cases, the request or initiative must come from the client. In case of a company, consent is required to be obtained from a competent authority such as the Managing Director if duly authorised, otherwise by a resolution of the Board of Directors.

An auditor is not required to provide the client or other auditors of the same enterprise or its related enterprise such as a parent or subsidiary, access to his audit working papers. The main auditor does not have a right of access to the audit working papers of branch auditors. However, the auditor may, at his discretion, make portions of or extracts from his working papers available to the client. There is a difference between sharing of working papers and sharing of information, and information may be provided only after obtaining consent of the client.

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In the given case, during the audit CA Anshul acquired certain confidential information and is requested by the Managing Director of Rise Ltd. to share audit working papers and internal findings.

In view of above, CA Anshul must not share the audit working papers or any confidential information relating to the litigation, investigations or tax disputes with the Managing Director, or discuss it with anyone other than the client, without the client's proper consent obtained through a competent authority.

- (b) As per Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949, a CA in practice is deemed to be guilty of professional misconduct if he (i) advertises his professional attainments or services or (ii) uses any designation or expressions other than 'Chartered Accountant' on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a university established by law in India or recognized by the Central Government or a title indicating membership of the ICAI or of any other institution that has been recognized by the Central Government or may be recognized by the council.

Further, members of the Institute in practice who are otherwise eligible may practise as advocates subject to the permission of the Bar Council but in such case, they should not use designation 'Chartered Accountant' in respect of the matters involving the practice as an advocate. In respect of other matters, they should use the designation 'Chartered Accountant' but they should not use the designation 'Chartered Accountant' and 'Advocate' simultaneously.

In the present case, CA Raman, by appearing before the High Court and filing the vakalatnama as "CA Raman, Chartered Accountant & Advocate," and by printing both designations together on his visiting card and letterhead, has used a designation other than "Chartered Accountant" in a matter of his advocacy practice, and has combined both titles impermissibly. He is therefore guilty of professional misconduct under Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

**Applicability of Standards / Guidance Notes / Legislative Amendments
etc. for November, 2026 Examination**

Final Course

Paper 1: Financial Reporting

(I) List of topic-wise exclusions from the syllabus

(1)	(2)	(3)
S. No. in the syllabus	Topics of the syllabus	Exclusions
3.	Application of Indian Accounting Standards (Ind AS) with reference to General Purpose Financial Statements	Indian Accounting Standard (Ind AS) 16 'Property, Plant and Equipment' <ul style="list-style-type: none"> Appendix B- Stripping Costs in the Production Phase of a Surface Mine
	(iv) Ind AS on Assets and Liabilities of the Financial Statements	Indian Accounting Standard (Ind AS) 37 'Provisions, Contingent Liabilities and Contingent Assets' <ul style="list-style-type: none"> Appendix A: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds Appendix B: Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
	(vii) Other Ind AS	<ul style="list-style-type: none"> Indian Accounting Standard (Ind AS) 29: Financial Reporting in Hyperinflationary Economies Indian Accounting Standard (Ind AS) 106: Exploration for

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		and Evaluation of Mineral Resources <ul style="list-style-type: none"> • Indian Accounting Standard (Ind AS) 114: Regulatory Deferral Accounts • Indian Accounting Standard (Ind AS) 117: Insurance Contracts
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(II) Important Points for Consideration

- (1) November, 2024 edition and Reprint August, 2025 and onwards of the Study Material is relevant for November, 2026 examination.
- (2) The relevant Amendments / Notifications / Circulars / Rules issued by the Companies Act, 2013 and Limited Revisions in existing standards, issued up to 30th April, 2026 will be applicable for November, 2026 Examination. Accordingly, limited revisions in Ind AS issued by MCA in the year 2025 i.e. on 7th May, 2025 and 13th August, 2025 are applicable for November, 2026 examination
- (3) Newly notified Ind AS becomes applicable only one year after its notification. However, though Ind AS 117: Insurance Contracts has been notified on 12th August, 2024, yet being an industry specific standard, it has been excluded for November, 2026 Examination. However, limited revisions in the existing applicable Ind AS consequent to notification of Ind AS 117 will be applicable in November, 2026 examination.
- (4) Limited discussion of Accounting Standards has been given at relevant places in the form of differences of particular provision in Ind AS vis-à-vis AS. Accounting standards do not form part of the syllabus. However, with respect to AS 7, AS 9, AS 19 and AS 22 where there are significant differences between Ind AS and AS, questions on these Accounting Standards (i.e. AS 7, AS 9, AS 19 and AS 22) testing differential treatments in both the set of standards (i.e. Ind AS and AS) may be asked in the examination.

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Paper 3: Advanced Auditing, Assurance and Professional Ethics**Applicability of the Legislative Amendments for November 2026**

Examination: Students are expected to be updated with the notifications, circulars and other legislative amendments made up to 6 months prior to the examination. Accordingly, the relevant notified Sections and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to April 30th, 2026 will be applicable for November 2026 Examination.

Mock Test Paper - Series I: September, 2026

Date of Paper: 15th September, 2026

Time of Paper: 2 PM to 5 PM

FINAL COURSE: GROUP I

**PAPER-3: ADVANCED AUDITING, ASSURANCE AND
PROFESSIONAL ETHICS**

Time Allowed- 3 hours

Maximum Marks-100

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I - Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory.

Case Scenario I [MCQ 1-5]

Vistara Lifesciences Ltd., a listed company engaged in the research, manufacture and sale of specialised pharmaceutical products, has appointed M/s Kavish & Co., Chartered Accountants, as its statutory auditors for the financial year 2025-26.

The company has recently undertaken substantial expenditure on research and development of a new drug. During the year, it capitalised ₹ 96 crore relating to development expenditure, stating that the technical feasibility of the product had been established and that the remaining regulatory approvals were expected shortly.

During the audit planning process, the engagement team noted that the company operates in a highly regulated industry and that the accounting treatment of development expenditure involves significant management judgement. However, none of the members of the engagement team possessed specialised knowledge of pharmaceutical development or regulatory approval processes. The Finance Director informed the audit team that all necessary technical assessments had already been carried out by the company's internal scientific team and, therefore, no further technical evaluation was necessary from the auditor's side.

Further, the audit team observed that supporting documents relating to clinical trials and regulatory submissions were provided almost six weeks after being requested. The engagement partner initially decided not to communicate the delay to those charged with governance since the documents were eventually received before completion of the audit.

As part of the firm's quality control system, an engagement quality review is required for the audit of Vistara Lifesciences Ltd. The review is assigned to CA Nitin, a senior partner of the firm. CA Nitin is not a member of the engagement team and has not participated in any audit decision relating to the company.

During the year, CA Nitin also assisted the firm in preparing its own GST returns. This internal assignment had no connection with Vistara Lifesciences Ltd. or its audit.

The audit team also identified a ₹ 50 lakh payment to a newly incorporated consultancy entity two days before the year-end. The invoice merely stated, "consultancy services". The registered address of the consultant was the residential address of an employee of the finance department. The CFO stated that the consultant was genuine and that the payment was made for legitimate services.

Based on the above facts, answer the following MCQs:

1. With regard to the capitalisation of development expenditure, which of the following is the most appropriate course of action for Kavish & Co.?
 - (A) The auditor may rely on management's assertion regarding technical feasibility, as it is exclusively management's responsibility.
 - (B) The auditor should assess the team's competence and, where necessary, involve an appropriate expert rather than rely solely on management.
 - (C) The auditor must appoint an external expert in every audit involving research and development expenditure.
 - (D) Since the expenditure has been approved by the Board, no further audit procedures are necessary. **(1 Mark)**
2. The six-week delay in providing significant audit documentation should be viewed by the auditor as:
 - (A) Irrelevant once the documents have ultimately been received.
 - (B) Communicable only if the delay results in a modified audit opinion.
 - (C) A significant difficulty encountered during the audit that may require communication to those charged with governance.
 - (D) A matter concerning management only and therefore outside the auditor's communication responsibilities. **(1 Mark)**

3. Which of the following best reflects the professional scepticism required when evaluating the ₹ 50 lakh consultancy payment?
 - (A) The CFO's confirmation is sufficient because he is responsible for the company's financial affairs.
 - (B) No additional procedures are necessary because the amount is below the materiality threshold.
 - (C) The transaction should automatically be treated as fraudulent.
 - (D) The auditor should maintain a questioning mind and critically evaluate the unusual characteristics of the transaction. **(1 Mark)**
4. The fact that the consultancy vendor's registered address is the residential address of a finance employee should primarily prompt the auditor to:
 - (A) Consider a possible related-party relationship, fictitious vendor or other unusual relationship and perform appropriate further procedures.
 - (B) Ignore the matter because an employee's residential address cannot by itself establish fraud.
 - (C) Immediately qualify the audit opinion based on the unusual address.
 - (D) Obtain only a written representation from the CFO regarding the transaction. **(1 Mark)**
5. In relation to CA Nitin's role as engagement quality reviewer, which statement is most appropriate?
 - (A) He is automatically disqualified because he performs any other professional work within the firm.
 - (B) His unrelated GST work does not automatically disqualify him; his eligibility and objectivity must be evaluated for the engagement.
 - (C) Only an engagement partner can perform an engagement quality review.
 - (D) An engagement quality reviewer cannot perform any other function within the firm during the entire financial year. **(1 Mark)**

Case Scenario II [MCQ 6-9]

CA Hitesh, a practicing Chartered Accountant, intends to fill out the Multi-purpose Empanelment Form (MEF) to be included in the panel for the statutory audit of bank branches for the financial year 2025-26, as hosted by the Professional Development Committee (PDC) of ICAI. The application process requires the submission of XML files of personal income tax returns along

with the computation of income. During the relevant financial year for which the information is sought, CA Hitesh had engaged in currency and commodity derivatives transactions, declaring the resulting income under "Business Income" in his tax return.

Additionally, Pitch Private Limited approached CA Hitesh to digitally sign and upload a resignation form related to Mr. Mohit, one of its directors, on the Registrar of Companies (ROC) portal. However, the signature of Mr. Mohit had been copied and pasted by another director of the company. Without verifying the authenticity of the resignation letter, CA Hitesh digitally signed the form, which was then uploaded to the ROC portal.

Subsequently, CA Hitesh's actions were brought under scrutiny when the Director (Discipline) of the Institute of Chartered Accountants of India (ICAI) received complaints regarding alleged misconduct. Upon investigation, he was found guilty of misconduct, and the competent authority imposed the appropriate penalty in accordance with the provisions of the Chartered Accountants Act, 1949.

Based on the above facts, answer the following MCQs:

- 6 Whether CA Hitesh will be held guilty for reflecting income from currency and commodity derivatives as "Business Income". If yes, under which clause?
- (A) Yes, CA Hitesh will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (11) of Part I of the First Schedule of the Chartered Accountants Act, 1949.
 - (B) Yes, CA Hitesh will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (6) of Part I of the First Schedule of the Chartered Accountants Act, 1949.
 - (C) No, CA Hitesh will not be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under the Chartered Accountants Act, 1949.
 - (D) Yes, CA Hitesh will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (2) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.

(2 Marks)

7. Whether CA Hitesh will be held liable for misconduct for uploading the digitally signed resignation letter. If yes, under which clause of the Chartered Accountants Act, 1949?
- (A) Yes, CA Hitesh will be liable for misconduct under Clause (2) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.

- (B) Yes, CA Hitesh will be liable for misconduct under Clause (7) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.
 - (C) Yes, CA Hitesh will be liable for misconduct under Clause (5) of Part I of the First Schedule of the Chartered Accountants Act, 1949.
 - (D) Yes, CA Hitesh will be liable for misconduct under Clause (7) of Part I of the First Schedule of the Chartered Accountants Act, 1949. **(2 Marks)**
8. Before which authority would CA Hitesh's misconduct case be placed for disciplinary proceedings?
- (A) The High Court.
 - (B) The Board of Discipline.
 - (C) The Disciplinary Committee.
 - (D) The Appellate Authority. **(1 Mark)**
9. What is the minimum punishment that could have been imposed on CA Hitesh under the Chartered Accountants Act, 1949?
- (A) Reprimand the member.
 - (B) Removal of name from the register of members permanently or for a specified period and fine up to ₹ 5,00,000.
 - (C) Suspension of practice for up to 3 months.
 - (D) Warning and fine up to ₹ 50,000. **(1 Mark)**

Case Scenario III [MCQ 10-14]

Campaign Textiles Ltd. is an unlisted textile exporter having operations across three states and exporting mainly to customers in Europe and the Middle East. Kaveri & Associates have been appointed as the statutory auditors of the Company for the financial year 2025-26.

During the audit of trade receivables, the audit team selected 40 of the Company's largest customers for external confirmation and sent positive confirmation requests directly to them. Responses confirming the balances were received directly from 25 customers. In respect of the remaining 15 customers, as the responses were not received close to the reporting deadline, CA Rishu, the audit senior forwarded the list of outstanding confirmations to the Company's accounts team and requested them to follow up with the customers and communicate any responses received to the audit team, on the grounds that the Company had a better relationship with these customers.

During the overall review of audit differences, the engagement team identified three uncorrected misstatements: ₹ 35 lakh relating to a classification error between revenue and expenses, and ₹ 20 lakh and ₹ 18 lakh respectively arising from the verification of two different expense heads. Each misstatement had been assessed as individually immaterial when identified and, accordingly, had not been included in the summary of uncorrected misstatements maintained by the audit team. The performance materiality for the audit had been determined at ₹ 70 lakh.

Subsequent to the balance sheet date but before the date of the auditor's report, the Company was informed that one of its major customers, representing approximately 15% of outstanding trade receivables, had filed for insolvency. The insolvency was attributable to a prolonged liquidity crisis at the customer, which had already existed for several months before the reporting date. Management refused to make any additional provision for the receivable, contending that the insolvency filing occurred after year-end and should therefore be considered only in the subsequent financial year. The engagement partner, however, disagreed with management's view and requested management to reconsider the adequacy of the provision, considering that the condition giving rise to the insolvency existed at the reporting date.

Based on the above facts, answer the following MCQs:

10. Regarding the confirmation process for the 15 non-responding customers, is CA Rishu's approach of routing follow-up through the client's accounts team acceptable under SA 505?
 - (A) Yes, since SA 505 governs only the initial request; follow-up may be freely delegated.
 - (B) Yes, since the client's stronger customer relationships justify routing through them.
 - (C) No, SA 505 requires the auditor to control the confirmation process; routing follow-up through the client compromises the reliability of the evidence.
 - (D) No, as SA 505 does not permit more than 25% of confirmation requests to be followed up by the client. **(1 Mark)**
11. What should the auditor do in respect of the 15 customer balances where the confirmation process was not appropriately controlled?
 - (A) Perform alternative audit procedures, such as examining subsequent receipts, relevant shipping documents and sales invoices, to obtain sufficient appropriate audit evidence.
 - (B) Consider the balances confirmed if responses are subsequently received through the Company's accounts team.

- (C) Make an additional provision for doubtful debts in respect of the balances for which confirmations were not received.
- (D) Exclude these balances from the audit sample and base the audit conclusion only on the 25 confirmations received directly. **(1 Mark)**
12. How should the audit team deal with the three uncorrected misstatements of ₹ 35 lakh, ₹ 20 lakh and ₹ 18 lakh identified during the audit?
- (A) No further action is required as each of the misstatements was individually assessed as immaterial when identified.
- (B) The misstatements should be accumulated, unless they are clearly trivial, and evaluated individually and in aggregate.
- (C) The misstatements need to be accumulated only if they relate to the same account balance or class of transactions.
- (D) The misstatements need not be considered in aggregate as they were identified from different audit procedures and relate to different expense heads. **(2 Marks)**
13. How should the insolvency of the major customer be considered under SA 560, and what should be the auditor's response to management's refusal to make an adjustment?
- (A) A non-adjusting event, since insolvency filings always relate to conditions arising after year-end.
- (B) A non-adjusting event requiring only disclosure in the notes.
- (C) An adjusting event, but the auditor has no responsibility to request adjustment.
- (D) An adjusting event, since the liquidity crisis existed at year-end; management should adjust the provision, not rely merely on the filing date. **(1 Mark)**
14. If management refuses to make the required adjustment and the auditor concludes that the resulting misstatement is material but not pervasive to the financial statements, which type of audit opinion should be expressed?
- (A) Qualified opinion, as the misstatement is material but not pervasive to the financial statements.
- (B) Adverse opinion, as management has refused to correct a material misstatement.
- (C) Disclaimer of opinion, as the auditor is unable to determine the customer's financial position independently.
- (D) Unmodified opinion with an Emphasis of Matter paragraph, as the matter has been communicated to management. **(1 Mark)**

Case Scenario IV [MCQ 15-19]

Vertex Consumer Holdings Ltd. is a listed financial services group with a wholly-owned NBFC subsidiary, Vertex Capital Pvt. Ltd. Devraj & Co., Chartered Accountants, are the statutory auditors of the group for the financial year 2025-26, with the engagement led by CA Kabir.

During substantive testing of inventory at one of Vertex's operating subsidiaries, the engagement team identifies a pattern of indicators — including inventory count sheets with suspicious alterations, a senior operations manager who was unusually insistent on personally supervising the year-end physical count at a specific warehouse, and a spike in reported closing stock in the final week of the financial year unsupported by corresponding purchase or production records — suggesting that the manager may have deliberately inflated inventory quantities to boost the subsidiary's reported profitability ahead of a planned internal performance review. On being briefed on these indicators, the Board of Vertex Consumer Holdings Ltd. decides to commission an independent forensic accountant to conduct a focused investigation exclusively into this allegation, running as a parallel but separate exercise alongside Devraj & Co.'s ongoing statutory audit of the FY 2025-26 financial statements.

As part of its statutory disclosures, Vertex Consumer Holdings Ltd. publishes a Business Responsibility and Sustainability Report (BRSR) in which it represents, under Principle 5 (Human Rights) of the National Guidelines on Responsible Business Conduct, that all loan proposals processed by the company are screened under a self-declared 'responsible lending' policy that excludes financing to any borrower business found to be involved in child labour practices, and that this screening is embedded as a mandatory step in the loan sanctioning workflow. However, during a review of internal audit records for the year, the engagement team discovers that this screening step has, in practice, not been applied to any loan proposal processed over the past six months, because the compliance officer position responsible for conducting the screening has remained vacant since a resignation, with no interim arrangement made to cover this control activity.

During one of several remote/digital audit sessions conducted over video call with Vertex's CFO to walk through the group's management information system, a member of the audit team, without seeking or obtaining prior authorization from the CFO or anyone else at Vertex, takes a screenshot of a confidential internal MIS dashboard displayed on screen, including granular, entity-wise profitability and cash-flow projections not otherwise shared with the audit team in documented form. The team member subsequently saves this screenshot on his personal laptop, intending to refer to it later while preparing his working papers, rather than uploading it to the firm's secured audit documentation system.

During the consolidation process for the Consolidated Financial Statements, the engagement team notes that intra-group loan balances outstanding between Vertex Consumer Holdings Ltd. (the parent) and Vertex Capital Pvt. Ltd. (its wholly-owned NBFC subsidiary), comprising a loan

of ₹ 15 crore extended by the parent to the subsidiary during the year, have not been eliminated on consolidation, resulting in an overstatement of both consolidated assets and consolidated liabilities by ₹ 15 crore. The engagement team assesses this misstatement as material to the Consolidated Financial Statements, though not pervasive. When the matter is raised with the CFO for correction, management refuses to pass the elimination entry, arguing that since the loan appears as both a receivable and a payable within the group, 'it nets off in aggregate group profitability anyway.'

Separately, and unrelated to the audit fieldwork itself, it comes to the attention of the firm's ethics committee that a senior partner of Devraj & Co., not part of the Vertex engagement team, has accepted a referral fee from an investment bank in consideration for recommending Vertex Consumer Holdings Ltd. to the bank as a potential client for a prospective equity fundraising mandate the bank was seeking to pitch for. This arrangement was never disclosed to Vertex's Audit Committee or to the engagement partner, CA Kabir, and came to light only when the investment bank referenced the 'introduction fee arrangement' in an unrelated email later forwarded internally within Devraj & Co.

Based on the above facts, answer the following MCQs:

15. Which of the following correctly distinguishes the objective of the forensic accountant's investigation into the alleged inventory inflation from that of the statutory audit?
 - (A) Both share the identical objective of opining on the financial statements as a whole.
 - (B) The statutory audit is limited to spotting fraud indicators, never establishing facts.
 - (C) The forensic investigation replaces the need for further SA 240 procedures this year.
 - (D) The forensic review targets the specific fraud allegation's facts, while the audit's objective remains overall reasonable assurance under SA 240. **(1 Mark)**
16. In evaluating the inconsistency between Vertex's BRSR 'responsible lending' disclosure and the actual lapse in screening, what is most relevant for the statutory auditor to consider while completing the audit of the financial statements?
 - (A) Nothing, since BRSR/ESG disclosures are entirely outside the scope of a financial statement audit.
 - (B) Evaluate the inconsistency as an 'Other Information' matter under SA 720, and separately assess the screening lapse as a possible SA 250 compliance/control issue with financial statement effects.

- (C) Immediately modify the opinion, since any BRSR inconsistency is automatically a material misstatement.
- (D) Emphasis of Matter paragraph fully discharges the responsibility. **(1 Mark)**
17. What are the correct data protection/confidentiality concerns and appropriate safeguards regarding the unauthorised screenshot and its storage on a personal laptop?
- (A) Unauthorized screenshots and storage outside the firm's secured systems breach confidentiality and data-protection principles for remote audits.
- (B) No specific concerns, anything visible on an audit video call may be freely captured and stored.
- (C) Only the storage location is a concern; capturing the screenshot itself needs no authorization.
- (D) Only the lack of authorization matters; a password-protected personal laptop is fine. **(2 Marks)**
18. What is the appropriate course of action and reporting implication for the auditor regarding the unresolved intra-group elimination in the Consolidated Financial Statements?
- (A) No adjustment needed, since netting off doesn't affect aggregate reported profit.
- (B) Issue a disclaimer of opinion, since this always represents a scope limitation.
- (C) The unmade elimination is a material but not pervasive misstatement, the auditor should issue a qualified opinion under SA 705, regardless of management's disagreement.
- (D) The auditor should adjust the statements directly on management's behalf. **(2 Marks)**
19. A senior partner of Devraj & Co. accepts a referral fee from an investment bank for recommending Vertex Consumer Holdings Ltd. as a potential client for a future fundraising mandate, without disclosing this arrangement to Vertex's Audit Committee. Which of the following is in compliance with the Chartered Accountants Act and Code of Ethics?
- (A) Permissible, since referral fees are a purely commercial matter outside the Code of Ethics.
- (B) Raises a self-interest threat given the lack of disclosure to the Audit Committee, and breaches the Code of Ethics' restrictions on commission-based arrangements; disclosure, safeguards, or declining are required.

- (C) Permissible, provided the referral fee is under 10% of the audit fee.
- (D) Impermissible only because a senior partner, rather than a manager, accepted it.

(1 Mark)

20. During an audit of a State Government department, the CAG audit team observed that, under the applicable State law, a premises was classified as a flat, if it either contained dwelling units exceeding a prescribed limit or had a total building area exceeding the prescribed limit. The department's database, however, did not capture the building area. As a result, some buildings were incorrectly classified as flats. The audit team directed physical verification, which confirmed the misclassification and consequent short-collection of water charges.

Which of the following correctly identifies the type of audit conducted and the authority to whom its report would be submitted?

- (A) Propriety Audit — Report to be submitted to the State Legislature.
- (B) Performance Audit — Report to be submitted to the Central Government.
- (C) Compliance Audit — Report to be submitted to the Central Government.
- (D) Compliance Audit — Report to be submitted to the State Legislature. **(2 Marks)**

21. SHN & Associates are the statutory auditors of LMN Ltd. for FY 2025–26. During the audit, CA Neha, the engagement partner, observes the following:

- Significant payments towards fines and penalties.
- Several unusual cash payments.
- Payments to government employees without supporting documents.
- Notices received from various regulatory authorities.
- Substantial payments made to legal counsels.

Based on these observations, which of the following should CA Neha primarily consider?

- (A) There may be weaknesses in the internal controls of LMN Ltd. requiring further evaluation and audit procedures.
- (B) There may be instances of non-compliance with applicable laws and regulations by LMN Ltd. requiring further investigation.
- (C) There may be deficiencies in the accounting system of LMN Ltd. affecting the reliability of its financial records.

- (D) There may be circumstances casting doubt on the going concern assumption of LMN Ltd. requiring further assessment. **(2 Marks)**

22. Karan & Associates are the statutory auditors of XYZ Ltd. for the FY 2025-26. The company has a strong internal audit team. During the audit, CA Karan, the engagement partner, found that the company has factories all across the country. In order to verify the wages expenses at all the factories, CA Karan decided to use the Internal Audit Team of the company. He accordingly discussed the same with Mr. Rishabh, the Chief Internal Auditor of XYZ Ltd., to provide him with a report on the wages expenses across all factories.

Which of the following requirements as per SA 610 are required to be fulfilled by CA Karan prior to using the direct assistance of the Internal Audit Team of the company?

- (A) CA Karan should obtain written agreement from the management of XYZ Ltd. that the internal audit team will be allowed to follow the statutory auditors' instructions.
- (B) CA Karan should obtain written agreement from Mr. Rishabh that his team will keep the matters confidential.
- (C) Both (A) and (B).
- (D) CA Karan can use the direct assistance of the Internal Audit Team after discussing the same with the management. No prior written agreement is required.

(1 Mark)

23. During the audit of Continental Foods Ltd., the engagement team initially determines overall materiality at ₹ 40 lakh based on budgeted revenue. Midway through the audit, actual revenue for the year turns out to be substantially lower than budgeted, following the termination of a major customer contract mid-year. The engagement team continues to use the original materiality of ₹ 40 lakh for the remainder of the audit, without reassessing it, reasoning that materiality had already been communicated within the engagement team as part of the audit plan. Which of the following correctly reflects the position under SA 320?

- (A) The team's approach is correct, since materiality determined during planning need not be revised once it has been documented and communicated within the engagement team.
- (B) The team's approach is incorrect. SA 320 requires materiality to be revised as the audit progresses if the auditor becomes aware of information that would have caused the auditor to determine a different amount initially, such as a significant change in circumstances.

- (C) The team's approach is correct, provided the original materiality was based on a reasonable benchmark at the time it was determined, regardless of subsequent developments.
- (D) The team's approach is incorrect, but only because materiality must always be based on actual, and never on budgeted, figures from the outset, making the original determination itself invalid. **(1 Mark)**

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

1. (a) Nest & Co., Chartered Accountants, while conducting an internal review of its system of quality control, identified certain deficiencies in its monitoring process. The firm had not carried out any periodic inspection of completed audit engagements for the past two years, as the managing partner considered such inspections unnecessary in the absence of any major audit failure. Further, despite several amendments to professional standards and regulatory requirements during the year, the firm had not evaluated whether its quality control policies and procedures required modification.

The responsibility for monitoring the system had been assigned to an inexperienced staff member who lacked sufficient authority to initiate corrective action. In addition, two complaints alleging non-compliance with professional standards were received during the year but were not formally investigated. In another engagement, a deficiency identified during a review was merely communicated to the personnel concerned, without taking remedial action or performing any follow-up.

With reference to SQC 1, examine whether the firm's monitoring process is appropriate. Discuss the relevant requirements that the firm should consider.

(5 Marks)

- (b) Suryodaya Industries Ltd., a listed company, is engaged in manufacturing and distribution of consumer products. During the audit of its financial statements for the year ended 31 March 2026, the auditor, M/s Mehta & Co., Chartered Accountants, identified the following two matters:
- (i) The company has significant goodwill arising from an earlier acquisition. During the year, management performed an impairment assessment of the goodwill involving significant assumptions relating to projected cash flows,

growth rates and discount rates. The assessment involved a high degree of management judgment and was considered by the auditor to involve a higher risk of material misstatement. The audit team devoted considerable time to evaluate the assumptions and methodology used by management and also involved an auditor's expert to assist in evaluating the valuation methodology and certain significant assumptions. The matter was extensively discussed with those charged with governance.

- (ii) On 15th April 2026, a major fire occurred at one of the company's warehouses, resulting in substantial damage to inventory and property. Since the fire occurred after the reporting date, no adjustment was required to the financial statements for the year ended 31st March 2026. The company has, however, appropriately disclosed the nature and estimated financial effect of the event in the notes to the financial statements. The auditor has no disagreement with management regarding the accounting or disclosure of the event and there is no material uncertainty concerning the matter. Nevertheless, considering the magnitude of the fire and its potential impact on the company, the auditor believes that the matter is fundamental to users' understanding of the financial statements.

Distinguish, with reasons, how each matter should be addressed in the auditor's report. **(5 Marks)**

- (c) M/s RST & Co. are the statutory auditors of LMN Ltd., a listed entity. The auditor's report on the financial statements for the year ended 31st March 2026 was dated 20th May 2026. CA Rituraj, the auditor, had read all the other information that was expected to be included in the annual report and had not identified any material misstatement therein as at that date.

The annual report was subsequently finalised and published on 30th June, 2026. On 5th July, 2026, the auditor became aware that the published annual report contained a statement that the company had successfully commissioned a new manufacturing plant in April, 2026 and that the plant had contributed significantly to the company's revenue for the year ended 31st March 2026.

The auditor notes that the statement is factually incorrect. The plant was actually commissioned only in April 2026, and therefore it could not have contributed to revenue for the year ended 31st March 2026. With reference to SA 720 (Revised), explain the responsibilities of M/s RST & Co. in this situation. **(4 Marks)**

2. (a) M/s Aarav & Associates, a firm of Chartered Accountants, has three partners, CA Aarav, CA Bhavna and CA Chirag. During the year 2026-27, the partners accepted and signed the following tax audit assignments:

Particulars	CA Aarav	CA Bhavna	CA Chirag
Tax audit assignments signed in individual capacity under section 44AB(a)/(b)	20	22	12
Tax audit assignments signed as partner of M/s Aarav & Associates under section 44AB(a)/(b)	42	30	45
Tax audits relating to persons covered under section 44AE	4	3	5
Tax audits relating to persons covered under section 44AD	3	2	4
Revised tax audit reports issued during the year	2	3	1

CA Aarav contends that since the firm has three partners, the limit of 60 tax audits can be shared among the partners and, therefore, he can accept additional tax audit assignments. CA Bhavna, on the other hand, argues that the tax audits under sections 44AE and 44AD should also be included while determining the limit of 60.

With reference to Chapter VI of the Council General Guidelines, 2008, examine the above contentions and determine whether CA Aarav, CA Bhavna and CA Chirag have complied with the prescribed limit of tax audit assignments. Also state whether the revised tax audit reports are to be considered for this purpose.

(5 Marks)

- (b) Estage Logistics Ltd. has experienced a significant decline in freight volumes during the year. The company is also in breach of a debt covenant requiring it to maintain a minimum debt-service coverage ratio. In response, the bankers have given a notice to the company stating that they reserve the right to recall the loan facility, although no formal recall notice has been issued so far.

Management has prepared a plan to address the situation, which includes the proposed sale of a non-core division and renegotiation of the existing loan terms. However, the sale has not yet been contracted and discussions with the bankers regarding revised loan terms are still at a preliminary stage.

Based on the above circumstances, explain how the auditor should evaluate management's assessment of going concern, including management's plan to mitigate the identified conditions and discuss the implications for the auditor's report under SA 570. **(5 Marks)**

- (c) Moby Manufacturing Ltd. has substantially automated its accounting and production processes. During the audit of the financial year 2026–27, CA Neha observed the following:

- ❖ The company's IT team made certain changes to the payroll application directly in the live environment without following the prescribed approval and testing procedures.
- ❖ The company has recently upgraded its inventory software, but certain branches continue to use the older version, resulting in errors while transferring inventory data between systems.
- ❖ In certain situations where the automated system could not process transactions, employees were permitted to override system-generated entries manually without independent review or proper documentation.
- ❖ The company experienced a ransomware incident in which certain financial and customer data became inaccessible and some files were found to be corrupted. The backup arrangements were also found to be inadequate.

Based on the above observations, identify and briefly explain the four risks arising from the use of IT that CA Neha should consider while planning the audit of Moby Manufacturing Ltd. **(4 Marks)**

3. (a) M/s Grand Pharmaceuticals Ltd., a pharmaceutical manufacturing company, has appointed CA Rohan as its internal auditor. During his review of the internal control system, he noted the following:
- (i) The Sales Manager has been handling the same group of major customers for the last eight years. He is also authorised to approve credit limits and recommend write-off of long-outstanding balances. Due to his long association with the customers, management has not considered rotation necessary.
 - (ii) The Stores Supervisor is responsible both for maintaining records of receipts and issues of inventory and for having physical custody of the stores. No independent physical verification of inventory has been carried out for the last three years.

- (iii) The Finance Manager prepares payment instructions as well as gives final approval for payments. There is no independent review of payment instructions before funds are released.

Based on the above observations, examine the principles of internal check that have not been adequately followed. Also explain the underlying inherent risks associated with the relevant activities and how the identified deficiencies may affect the auditor's assessment of control risk. **(5 Marks)**

- (b) During the year 2026-27, the management of following three NBFCs approached their statutory auditor for advice regarding their registration status under the amended RBI framework.
- (i) Alpha Finance Ltd. does not avail public funds and does not have any customer interface. Its latest audited balance sheet shows total assets of ₹ 850 crore. The company intends to continue with the same business model in the long term.
- (ii) Beta Holdings Ltd. also does not avail public funds and does not have any customer interface. However, its latest audited balance sheet shows total assets of exactly ₹ 1,000 crore. The management contends that since the threshold is stated as ₹ 1,000 crore, it should also qualify for exemption from registration.
- (iii) Gamma Finance Ltd. has assets of only ₹ 300 crore. It neither has a large balance sheet nor accepts deposits. However, it has access to public funds through its group structure and also has a customer interface.

The managements of all three entities seek your advice on whether they are required to obtain or continue holding a Certificate of Registration from the RBI under the Registration Amendment Directions, 2026, effective from 1st July 2026.

Advise the managements regarding the applicability of registration requirements to the three NBFCs under the amended framework. Also explain the broad classification into Unregistered Type I NBFC, Type I NBFC and Type II NBFC.

(5 Marks)

- (c) Jam Ltd. is a company engaged in the manufacture of stainless steel items. The company operates through 5 business units and has 40 branches across India. Krishiv & Associates are being appointed as the principal auditor of the company. While accepting the audit assignment as the principal auditor, what will be the points of consideration for the principal auditor of the company? **(4 Marks)**

4. (a) Star Textiles Ltd. has adopted an ESG framework for its operations. The Company has recently appointed a new contractor for its manufacturing facility. The contractor offered significantly lower costs than the existing contractor. During the due diligence process, the Company became aware that the contractor had previously faced allegations relating to unsafe working conditions and non-payment of statutory benefits to workers.

The management nevertheless decided to appoint the contractor, stating that the contractor was an independent entity and that the lower cost would improve the Company's profitability. The Company did not undertake any further assessment of the contractor's labour practices or require the contractor to comply with its ESG requirements.

Subsequently, the Company learnt that the contractor had engaged a number of workers through informal arrangements without adequate documentation of their employment terms. The management continued to maintain that such matters were the contractor's responsibility and need not be considered by the Company for its ESG reporting.

(i) Identify the ESG Pillar primarily involved in the above situation. **(1 Mark)**

(ii) Explain the relevance of the identified Pillar to the Company's decision.

(2 Marks)

(iii) State two ESG-related concerns arising from the Company's approach.

(2 Marks)

- (b) CA Sameer, a Chartered Accountant in practice, has been appointed as the statutory auditor of XYZ Ltd. for the financial year 2025-26. While finalising the terms of his professional engagement, he proposes to charge a fixed statutory audit fee of ₹ 8 lakh. In addition, he proposes to charge a further fee equivalent to 2% of the amount by which the profit of XYZ Ltd. increases as a result of audit adjustments made during the course of the audit.

The management of XYZ Ltd. agrees to the proposal, stating that the additional amount would become payable only if the audit results in an increase in the reported profit.

Separately, CA Sameer is engaged by ABC Ltd., which is not his audit client, to provide litigation-support services in connection with a commercial dispute. For this assignment, he proposes to charge a fee which would become payable only upon the successful outcome of the litigation.

With reference to the Chartered Accountants Act, 1949 and the Chartered Accountants Regulations, 1988, examine the permissibility of the above fee arrangements. **(5 Marks)**

- (c) Sky Infrastructure Pvt. Ltd. is bidding for a long-term government project involving construction of smart highways. As part of the bidding documents, the company is required to present Prospective Financial Information (PFI) for the next five years to demonstrate its financial viability. CA Jigar has been engaged to examine the Prospective Financial Information. While examining the PFI, CA Jigar observes that the Management has assumed zero increase in construction material costs over five years, even though industry reports predict a steady 6-8% annual increase due to inflation. Further, the company has based its revenue projections on the assumption that it will win two additional large contracts, even though bids are yet to be submitted. Elaborate on the duties of CA Jigar while examining the Prospective Financial Information. **(4 Marks)**

5. (a) During the audit of Solstice Textiles Ltd., the auditor, while obtaining external confirmation of bank balances, received a confirmation directly from the bank showing a Fixed Deposit of ₹ 2 crore in the name of the company. However, the Fixed Deposit was not recorded in the books of account of Solstice Textiles Ltd. and was also not appearing in the bank reconciliation statement prepared by the company.

When questioned, the Finance Manager explained that the Fixed Deposit actually belonged to another group entity and that the group entity had inadvertently used Solstice Textiles Ltd.'s PAN while opening the account. He further stated that the Fixed Deposit had no impact on the financial statements of Solstice Textiles Ltd.

The auditor is considering whether the management's explanation can be accepted without carrying out any further procedures.

You are required to advise the auditor regarding the appropriate course of action in the above circumstances with reference to the relevant Standards on Auditing. Also state the related considerations that the auditor should evaluate before concluding on the matter. **(5 Marks)**

- (b) Vega Insurance Brokers Ltd. is preparing its financial statements for the year ended 31st March 2026. The company has recognised a material provision for incurred-but-not-reported (IBNR) insurance claims, which involves significant estimation uncertainty and actuarial judgement.

Management engaged an independent actuary to determine the IBNR claims reserve. The actuary provided a report containing the amount of the reserve along with the actuarial assumptions and methodology used.

During the audit, the engagement team decided to rely on the amount certified by the actuary and incorporated it into the audit working papers without evaluating the actuary's competence, capabilities and objectivity. The team also did not obtain an understanding of the work performed by the actuary or evaluate the reasonableness of the significant actuarial assumptions, citing the tight reporting deadline.

As the audit partner, you are required to advise the engagement team regarding the requirements to be complied with before relying upon the actuary's work as audit evidence. **(5 Marks)**

- (c) CA Rudra, a Chartered Accountant in practice, was approached by Jin Ltd. to assist the company in improving its internal operations. The company requested him to review its existing organisational structure, prepare job descriptions for various positions, evaluate the workload of employees and design an appropriate employee incentive scheme. CA Rudra agreed to provide these services for a professional fee. He was not appointed as the statutory auditor or internal auditor of Jin Ltd.

Examine whether acceptance of such assignment by CA Rudra amounts to professional misconduct. **(4 Marks)**

6. (a) CA Rig, a recently qualified practicing Chartered Accountant, got his first audit assignment of KaM (P) Ltd. for the financial year 2025-26. He obtained all the relevant appropriate audit evidence for the items related to Statement of Profit and Loss. However, while auditing the Balance Sheet items, CA. Rig failed to obtain sufficient audit evidence, such as confirmations, for the outstanding Accounts Receivable amounting to ₹ 230 lakhs, continued as it is from the last year, on the affirmation of the management that there is no receipts and further credits during the year.

Relying merely on the management's affirmation that there were no receipts or further credits during the year, CA Rig excluded the audit of accounts receivable from his audit program, assuming that the amount pertained to the prior year, which had already been audited by the predecessor auditor. Comment on the appropriateness of CA Rig's approach. **(5 Marks)**

- (b) Comet Logistics Ltd. outsources its entire payroll processing function to an external service organisation, ProPay Solutions, which maintains payroll records,

computes salaries and processes statutory deductions on behalf of Comet Logistics Ltd. The auditor of Comet Logistics Ltd. needs to evaluate the design and operating effectiveness of controls at ProPay Solutions relevant to payroll processing.

Discuss the auditor's considerations under SA 402, including the relevance of a Type 1 and Type 2 report obtained from the auditor of service organisation.

(5 Marks)

- (c) Mr. Chetan qualified as a Chartered Accountant on 18 July 2026 and commenced practice on 15 August 2026. On 16 August 2026, a candidate approached him for engagement as an articled assistant. While agreeing to pay the stipend prescribed by the ICAI, Mr. Chetan also offered the candidate 1% of the profits of his CA firm as an additional payment. The candidate accepted both the prescribed stipend and the 1% share of profits. Subsequently, the ICAI objected to the payment of 1% of the firm's profits. Mr. Chetan replied that the additional payment was being made only to financially support the articled assistant, whose financial position was weak.

Is Mr. Chetan liable to professional misconduct?

(4 Marks)

OR

- (c) Kinlab Ltd. is a manufacturing company planning to expand its business over the next few years. The management has approached an investigator to assess the future maintainable turnover of the company for valuation purposes.

During the investigation, the investigator observed that the company's sales have increased steadily during the last three years but have fluctuated in certain product segments. The company is also planning to enter new domestic and international markets. At the same time, changes in Government policies and emerging economic conditions may affect the demand for its products. Further, new competitors are expected to enter the market, and some competing products are likely to be available at lower prices.

Based on the above facts, state the factors that the investigator should consider while assessing the future maintainable turnover of Kinlab Ltd.

(4 Marks)

Mock Test Paper - Series I: September, 2026

Date of Paper: 15th September, 2026

Time of Paper: 2 PM to 5 PM

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

ANSWERS

1.	(B)	13.	(D)
2.	(C)	14.	(A)
3.	(D)	15.	(D)
4.	(A)	16.	(B)
5.	(B)	17.	(A)
6.	(A)	18.	(C)
7.	(B)	19.	(B)
8.	(C)	20.	(D)
9.	(A)	21.	(B)
10.	(C)	22.	(C)
11.	(A)	23.	(B)
12.	(B)		

PART – II: DESCRIPTIVE QUESTIONS

1. (a) As per SQC 1, “Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements”, the firm should ensure that policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm’s system of quality control, including a periodic inspection of a selection of completed engagements. Quality control of engagements has to be monitored taking into account following factors:
 - ♦ Deciding whether the quality control system of the firm has been appropriately designed and effectively implemented.
 - ♦ Examining whether new developments in the professional standards, legal and regulatory requirements have been reflected in the quality control policies.

- ◆ Conducting monitoring by entrusting responsibility of monitoring process to a partner or other persons with sufficient and appropriate experience and authority in the firm.
- ◆ Dealing with complaints and allegations against the firm or any employees of it of non-compliance with professional standards or appropriate regulatory requirements by a person within or outside the firm.
- ◆ Taking appropriate remedial actions against the personnel who did not conform to quality control policies.
- ◆ Taking action when deficiencies in the design or operation of the firm's quality control policies and procedures, or non-compliance with the firm's system of quality control are identified.

In the given case, Nest & Co. failed to conduct periodic inspections of completed audits and did not update its quality control policies for changes in professional standards and regulations.

Further, complaints were not investigated, monitoring was assigned to inexperienced personnel, and identified deficiencies were not followed by appropriate corrective or remedial action.

Thus, it can be concluded that Nest & Co. has not complied with the monitoring requirements of SQC 1. Also, the firm needs to strengthen its monitoring process so that deficiencies in the design or operation of its system of quality control are identified, investigated and appropriately addressed.

- (b) As per SA 701, Communicating Key Audit Matters in the Independent Auditor's Report, Key Audit Matters (KAMs) are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. They are selected from matters communicated with those charged with governance, having regard to matters involving significant auditor attention, including areas of higher assessed risk of material misstatement, significant auditor judgment and significant events or transactions.
- (i) The impairment assessment of goodwill involved significant management judgment and auditor judgment and required significant audit effort, including the involvement of a valuation expert. It is therefore a matter that is likely to have required significant auditor attention and may constitute a Key Audit Matter. Accordingly, if determined to be one of the matters of most significance in the audit, it should be communicated in the Key Audit Matters section of the auditor's report, with an explanation of why it was considered a KAM and how it was addressed in the audit.

- (ii) The fire occurred after the reporting period and is a non-adjusting subsequent event. Since it has been appropriately disclosed in the financial statements and the auditor considers it fundamental to users' understanding of the financial statements, the auditor may include an Emphasis of Matter paragraph under SA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report, with an appropriate cross-reference to the relevant disclosure.

The Emphasis of Matter paragraph does not modify the auditor's opinion.

Distinction

The goodwill impairment matter is addressed as a KAM under SA 701 because it required significant auditor attention and may have been one of the matters of most significance in the audit. In contrast, the subsequent fire is appropriately highlighted through an Emphasis of Matter paragraph under SA 706 because it is already appropriately disclosed and is considered fundamental to users' understanding.

However, inclusion of an Emphasis of Matter paragraph does not, by itself, make a matter a KAM. A matter may be both a KAM and an Emphasis of Matter only where it independently satisfies the respective requirements of SA 701 and SA 706.

- (c) SA 720, "The Auditor's Responsibilities Relating to Other Information" deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose.

Accordingly, the auditor is required to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon.

If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:

- (i) If the other information is corrected, perform the procedures necessary in the circumstances; or

- (ii) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared.

In the given case, the statement in the annual report that the manufacturing plant had contributed significantly to the company's revenue for the year ended 31st March 2026 is factually incorrect, since the plant was commissioned only in April 2026. The auditor should evaluate whether this constitutes a material misstatement of Other Information.

Since the auditor has identified a material misstatement in the Other Information after the date of the auditor's report, the auditor should discuss the matter with management and request management to correct the Other Information.

If management refuses to correct the identified material misstatement, the auditor should take appropriate further action, including communicating the matter to those charged with governance and, where appropriate, taking other action as required by SA 720.

2. (a) Tax Audit Assignments – Chapter VI of Council General Guidelines, 2008: In order to ensure the quality of tax audit, the Council of the Institute has decided the limit on the number of tax audits, to be affected by issuance of new guidelines, as follows –
 - (i) the existing limit of 60 tax audit assignments per member to be retained, but the same shall be in respect of tax audit assignments in a particular financial year.
 - (ii) the said limit of 60 would be the aggregate limit in respect of all tax audits accepted and signed by a member, both in his individual capacity and as a partner of a firm(s). In other words, an individual member cannot sign more than 60 tax audit reports in a financial year.
 - (iii) the limit on number of tax audit assignments per partner in a CA Firm cannot be distributed/or shared between the partners.
 - (iv) the limit of 60 would, however, not apply to tax audit assignments arising out of the requirements under clause (c), clause (d) and clause (e) of section 44AB, in relation to persons covered under section 44AE, 44ADA and 44AD, respectively.
 - (v) in the case of revision of tax audit report, the revised tax audit report shall not be taken into account for the purpose of reckoning the said limit of 60.

Accordingly:

Member	Assignments signed in individual capacity under section 44AB(a)/(b) + assignments signed in capacity of Partner under section 44AB(a)/(b) = Assignments counted	Compliance
CA Aarav	$20 + 42 = 62$	Non-Compliance
CA Bhavna	$22 + 30 = 52$	Complied
CA Chirag	$12 + 45 = 57$	Complied

The assignments relating to sections 44AE and 44AD are excluded from the above computation. The revised tax audit reports are also not counted for determining the limit.

Therefore, CA Bhavna and CA Chirag have complied with the limit of 60 tax audit assignments whereas CA Aarav has exceeded the limit and not complied with Guidelines.

Further, CA Aarav's contention that the limit of 60 can be shared amongst the partners is incorrect. The limit is applicable individually to each member and cannot be distributed/shared among the partners of the firm.

Also, CA Bhavna's contention that audits under sections 44AE and 44AD should be included is incorrect, as such assignments are specifically excluded from the prescribed limit.

- (b) As per SA 570, "Going Concern", the auditor is required to evaluate whether management's use of the going concern basis of accounting is appropriate and whether, based on the audit evidence obtained, a material uncertainty related to going concern exists.

In the given case, the following matters indicate the existence of events or conditions that may cast significant doubt on the company's ability to continue as a going concern:

- Sharp decline in freight volumes indicates deterioration in the company's operating performance and may adversely affect its future cash flows.
- Breach of the debt covenant is a significant financial difficulty. Further, the bankers have reserved the right to recall the facility, which may result in an immediate liquidity pressure if the facility is recalled.
- The auditor should evaluate management's plans to mitigate these conditions, including the proposed sale of the non-core division and

renegotiation of loan terms. Since the sale is not yet contracted and loan renegotiation is only at a preliminary stage, the auditor should critically assess the feasibility, timing and likely effectiveness of these plans and obtain sufficient appropriate audit evidence regarding them.

If, after considering management's plans and other relevant evidence, the auditor concludes that a material uncertainty related to going concern exists, the auditor should determine whether the financial statements adequately disclose the nature of the uncertainty and the relevant events or conditions.

Where adequate disclosure is made, the auditor should include a separate section in the auditor's report under the heading "Material Uncertainty Related to Going Concern", drawing attention to the relevant disclosure in the financial statements.

Thus, the auditor should not rely merely on management's proposed turnaround plan; the uncontracted sale and preliminary loan negotiations require careful evaluation before concluding on the company's ability to continue as a going concern.

(c) The following IT-related risks arise in the given case:

- Risk of unauthorised changes to IT applications/environment: Changes made directly to the live payroll application without proper approval and testing may result in unauthorised or inappropriate changes, which may adversely affect the processing and reliability of data.
- System integration and compatibility risk: Different versions of inventory software are being used by different branches. Incompatibility between systems may result in incorrect transfer or processing of data, bugs or errors in integrated systems.
- Risk of inappropriate manual intervention: Allowing employees to override system-generated entries without independent review creates a risk of inappropriate manual intervention, which may result in errors or unauthorised transactions being processed.
- Risk of data loss or data corruption: The ransomware incident and inadequate backup arrangements indicate a risk of loss or corruption of financial and other sensitive data. Such incidents may also expose the entity to fraud, cybersecurity and business-continuity risks.

3. (a) The following principles of internal check have not been adequately followed in the given situation:

- (i) Rotation of duties:** The Sales Manager has been dealing with the same customers for a prolonged period and has developed close relationships

with them. Periodic rotation of duties helps reduce the possibility of collusion, manipulation and concealment of irregularities. Further, the same individual having authority over credit limits and write-offs creates an inadequate segregation of duties.

- (ii) **Separation of custody from recording:** The Stores Supervisor is responsible both for the physical custody of inventory and for maintaining inventory records. The functions of custody and recording should, as far as practicable, be entrusted to different persons so that the work of one person provides a check on the other. Absence of independent physical verification further weakens this control.
- (iii) **Segregation of preparation and approval of payments:** The Finance Manager both prepares and approves payment instructions. No single person should have complete control over an important financial operation. Independent review and approval should be performed by another responsible official.

Inherent risks Associated with the relevant activities: Sales, inventory and payments are inherently susceptible to risks such as fictitious or unauthorised transactions, manipulation of receivables, inventory pilferage and fraudulent payments. The nature of these transactions gives rise to significant underlying inherent risks.

Impact of Control Deficiencies on Control Risk: The deficiencies in rotation, segregation of duties and independent verification mean that the internal controls may fail to prevent or detect material misstatements or fraud on a timely basis. Accordingly, control risk would be assessed as higher, requiring the auditor to perform appropriate additional audit procedures.

- (b) The Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026, effective from July 1, 2026, introduced a three-category framework for NBFCs based principally on public funds, customer interface and asset size.
 - (i) Unregistered Type I NBFC (Exempt): Non-deposit-taking NBFCs with no public funds, no customer interface and asset size below ₹ 1,000 crore are exempted from the provisions of Sections 45-IA and 45-IC of the RBI Act, subject to the prescribed conditions. Existing NBFCs satisfying the criteria may apply for deregistration by December 31, 2026.

- (ii) Type I NBFC (Registered): NBFCs with no public funds and no customer interface, but having an asset size of ₹1,000 crore or above, are required to remain registered as Type I NBFCs.
- (iii) Type II NBFC (Registered): An NBFC which avails public funds or has a customer interface, irrespective of its asset size, is required to be registered as a Type II NBFC.

Conclusion: Alpha Finance Ltd.: Since it has no public funds, no customer interface and its asset size of ₹ 850 crore is below ₹ 1,000 crore, it satisfies the basic conditions for the Unregistered Type I NBFC exemption, subject to fulfilment of the other prescribed conditions.

Beta Holdings Ltd.: It does not qualify for the exemption because its asset size is exactly ₹ 1,000 crore. The requirement is that the asset size should be less than ₹ 1,000 crore. Therefore, Beta Holdings Ltd. would be required to be registered as a Type I NBFC if it continues without public funds and customer interface.

Gamma Finance Ltd.: Its asset size being below ₹ 1,000 crore does not by itself make it eligible for exemption. Since it has access to public funds and has a customer interface, it falls within Type II NBFC and is required to be registered.

(c) **Acceptance as Principal Auditor:** The principal auditor, Krishiv & Associates, should consider whether their own participation is sufficient to be able to act as the principal auditor. For this purpose, the auditor would consider:

- (i) the materiality of the portion of the financial information which the principal auditor audits;
- (ii) the principal auditor's degree of knowledge regarding the business of the components;
- (iii) the risk of material misstatements in the financial information of the components audited by the other auditor; and
- (iv) the performance of additional procedures as set out in this SA regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

4. (a) (i) **Identification of Pillar – Social (S) Pillar:** The situation primarily relates to the Social pillar of ESG, particularly labour practices, employee welfare, working conditions and human rights in the Company's supply chain.
- (ii) The Social Pillar requires an entity to consider the impact of its activities and business relationships on employees, workers and other stakeholders.

ESG considerations are not necessarily confined to the Company's direct employees. Risks arising from contractors, suppliers and other business relationships may also be relevant to the Company's overall ESG performance.

Therefore, the fact that the contractor is an independent entity does not, by itself, make its labour practices irrelevant to the Company's ESG considerations. The Company should undertake appropriate due diligence and establish suitable requirements and monitoring mechanisms for its contractors.

(iii) **ESG-related concerns:** Two major concerns are:

- (1) **Labour and human-rights risk:** The Company has prioritised cost reduction over assessment of labour and human-rights risks and has failed to conduct adequate due diligence on the contractor. Unsafe working conditions, non-payment of statutory benefits and inadequate documentation of workers' employment terms indicate potential violations of labour and human-rights expectations.
- (2) **Supply-chain and reputational risk:** By appointing the contractor despite being aware of adverse allegations and failing to undertake further assessment, the Company may be exposed to reputational and ESG risks. If the Company subsequently represents that its supply chain follows responsible labour practices, such disclosure may also be misleading or incomplete.

Conclusion: The Company's approach of treating the contractor's ESG practices as entirely irrelevant merely because the contractor is an independent entity is not consistent with a comprehensive assessment of the Social dimension of ESG.

- (b) Clause (10) of Part I of the First Schedule to the Chartered Accountants Act, 1949 provides that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he charges or offers to charge, accepts or offers to accept, in respect of any professional employment, fees which are based on a percentage of profits or which are contingent upon the findings or results of such employment, except as permitted by the Regulations.

Further, Regulation 192 of the Chartered Accountants Regulations, 1988 restricts a member in practice from charging fees based on a percentage of profits or fees contingent upon the findings or results of professional work, subject to the exceptions prescribed therein.

In the case of XYZ Ltd.: The fixed statutory audit fee of ₹8 lakh, by itself, is not objectionable. However, the additional fee of 2% of the increase in profit resulting from audit adjustments is directly linked to the findings/results of the statutory audit. The amount of fee would depend upon the extent to which the audit adjustments increase the reported profit.

Accordingly, such an arrangement is not permissible and would attract the prohibition contained in Clause (10) of Part I of the First Schedule, read with Regulation 192.

In the case of ABC Ltd.: The litigation-support assignment is a non-assurance service provided to a non-audit client. The proposed contingent fee in respect of such service is covered by the exception permitted under Regulation 192, subject to fulfilment of the conditions prescribed therein. Therefore, charging a fee contingent upon the successful outcome of this non-assurance assignment would not constitute professional misconduct under Clause (10).

Conclusion: The additional fee linked to the increase in profit from the statutory audit of XYZ Ltd. is not permissible. However, the contingent fee proposed for the litigation-support assignment for the non-audit client ABC Ltd. is permissible under the applicable exception in Regulation 192, subject to its prescribed conditions.

- (c) As per SAE 3400 “The Examination of Prospective Financial Information”, in an engagement to examine prospective financial information, CA Jigar, the auditor should obtain sufficient appropriate evidence as to whether:
- (i) management’s best-estimate assumptions on which the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information;
 - (ii) the prospective financial information is properly prepared on the basis of the assumptions;
 - (iii) the prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions; and
 - (iv) the prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles.

While examining prospective financial information, principles laid down in other Standards on Auditing should be applied to the extent practicable.

5. (a) As per SA 505, “External Confirmations”, external confirmations generally provide reliable audit evidence. However, when a confirmation response indicates a difference between the information requested or contained in the entity’s records and the information provided by the confirming party, the auditor is required to investigate the exception.

In the given case, the bank has confirmed a Fixed Deposit of ₹2 crore in the name of Solstice Textiles Ltd., whereas the Fixed Deposit is neither recorded in the books nor reflected in the bank reconciliation statement. Accordingly, the auditor should not accept the Finance Manager’s explanation merely on the basis of management representation.

The auditor should perform appropriate additional procedures to resolve the matter, including:

- Obtaining confirmation from the bank regarding the account holder and ownership of the Fixed Deposit and examining the account-opening/KYC documents.
- Verifying whether the Fixed Deposit actually belongs to another group entity and determining why Solstice Textiles Ltd.’s PAN was used.
- Assessing whether the matter indicates an undisclosed related party or related party transaction, and considering the requirements of SA 550, Related Parties.
- Evaluating the completeness of Solstice Textiles Ltd.’s bank balances and other relevant financial information.
- Considering whether the unusual banking arrangement indicates any risk of fraud or management override, having regard to SA 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements.

The auditor should not rely on the management’s uncorroborated explanation. If the matter remains unresolved after performing appropriate additional procedures, the auditor should evaluate its effect on the sufficiency and appropriateness of audit evidence and consider the implications for the auditor’s report, including the requirements of SA 705, if applicable.

- (b) As per SA 500, Audit Evidence, when information to be used as audit evidence has been prepared using the work of a management’s expert, the auditor shall, to the extent necessary having regard to the significance of that expert’s work for the auditor’s purposes:

1. Evaluate the competence, capabilities and objectivity of the management's expert;
2. Obtain an understanding of the work of that expert; and
3. Evaluate the appropriateness of the expert's work as audit evidence for the relevant assertion.

Evaluation of the appropriateness of the expert's work includes considering the relevance and reasonableness of the expert's findings or conclusions, their consistency with other audit evidence, and the relevance and reasonableness of significant assumptions and methods used. The auditor should also consider the relevance, completeness and accuracy of the source data used by the expert.

In the given situation, the incurred-but-not-reported (IBNR) claims reserve is material and involves significant estimation uncertainty and actuarial judgement. Therefore, the work of the actuary is significant to the auditor's purposes. The engagement team cannot rely merely on the fact that the actuary has certified the amount. It is required to evaluate the actuary's competence, capabilities and objectivity, understand the actuarial work performed and evaluate the reasonableness of the assumptions, methods, source data and conclusions.

The reporting deadline does not relieve the auditor from complying with SA 500. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the expert's work, appropriate additional audit procedures should be performed, which may include agreeing with management on further action or, where necessary, involving another expert, including the auditor's own expert under SA 620.

Conclusion: The engagement team's approach of accepting the certified IBNR figure without the required evaluation is not in accordance with SA 500. The auditor must perform the prescribed evaluation before relying on the actuary's work as sufficient appropriate audit evidence.

- (c) Pursuant to Section 2(2)(iv) above, the Council has passed a resolution permitting a Chartered Accountant in practice to render entire range of "Management Consultancy and other Services". The expression "Management Consultancy and Other Services" includes Organization structure and behaviour, development of human resources including design and conduct of training programmes, work study, job-description, job evaluation and evaluation of workloads and setting up executive incentive plans, wage incentive plans etc.

Since the services proposed to be rendered by CA Rudra fall within the permissible scope of Management Consultancy and Other Services, he is permitted to undertake the assignment. Therefore, CA Rudra is not guilty of professional misconduct for accepting and rendering these services.

6. (a) Verification of Accounts Receivable: As per SA 510, “Initial Audit Engagements – Opening Balances”, while conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether-

- (i) Opening balances contain misstatements that materially affect the current period's financial statements; and
- (ii) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

When the financial statements for the preceding period were audited by another auditor, the current auditor may be able to obtain sufficient appropriate audit evidence regarding opening balances by perusing the copies of the audited financial statements.

Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

For current assets and liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures, say, the collection of opening accounts receivable during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period.

In addition, according to SA 580, “Written Representations”, the auditor may consider it necessary to request management to provide written representations about specific assertions in the financial statements; in particular, to support an understanding that the auditor has obtained from other audit evidence of management's judgment or intent in relation to, or the completeness of, a specific assertion. Although such written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own for that assertion.

In the given case, the management of KaM (P) Ltd. has restrained CA Rig, its auditor, from obtaining appropriate audit evidence for balances of Accounts Receivable outstanding as it is from the preceding year. CA Rig, on believing that the preceding year balances have already been audited and on the statement of the management that there are no receipts and credits during the current year, therefore excluded the verification of Accounts Receivable from his audit programme.

Thus, CA Rig should have requested the management to provide written representation for their views and expressions; and he should also not exclude the audit procedure of closing balances of Accounts Receivable from his audit programme. Consequently, CA Rig shall also be held guilty for professional misconduct for not exercising due diligence, or grossly negligence in the conduct of his professional duties as per the Code of Ethics.

- (b) As per SA 402, Audit Considerations Relating to an Entity Using a Service Organisation, where an entity uses the services of a service organisation that are relevant to financial reporting, the user auditor is required to obtain an understanding of the nature and significance of the services provided and their effect on the entity's internal control relevant to the audit.

In the given case, ProPay Solutions performs payroll processing activities, including maintaining payroll records, computing salaries and processing statutory deductions. Accordingly, the auditor of Comet Logistics Ltd. needs to consider the controls at ProPay Solutions relevant to payroll processing.

The auditor may consider the following reports issued by the service organisation's auditor:

- **Type 1 Report:** It provides information regarding the description and design of controls at ProPay Solutions and whether such controls are suitably designed as at a specified date. However, it does not provide evidence regarding the operating effectiveness of those controls. Therefore, a Type 1 report alone is not sufficient where the auditor intends to rely upon the operating effectiveness of payroll controls.
- **Type 2 Report:** It contains the description and design of controls and also provides the service auditor's opinion on the operating effectiveness of those controls over a specified period. Hence, where the auditor of Comet Logistics Ltd. intends to rely on the operating effectiveness of controls at ProPay Solutions, a suitable Type 2 report would provide relevant audit evidence.

The auditor should also evaluate the competence and independence of the service auditor, the adequacy of the period covered by the Type 2 report and whether any significant changes in the controls have occurred subsequent to the period covered by the report.

Since the auditor of Comet Logistics Ltd. is required to consider both the design and operating effectiveness of payroll controls at ProPay Solutions, a Type 2 report is appropriate. A Type 1 report may assist in understanding and evaluating the design of controls but, by itself, does not provide evidence of their operating effectiveness.

- (c) As per Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

In view of the above, the objections of the Institute of Chartered Accountants of India, as given in the case, are correct and reply of Mr. Chetan, stating that he is paying 1 % profits of his firm over and above the stipend to help the articulated clerk as the position of the articulated clerk is weak is not tenable.

Hence, Mr. Chetan is guilty of professional misconduct in terms of Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949.

OR

- (c) **Turnover** - In assessing the turnover which the business would be able to maintain in the future, the following factors should be taken into account:
- (i) **Trend:** Whether in the past sales have been increasing consistently or they have been fluctuating. A proper study of this phenomenon should be made.
 - (ii) **Marketability:** Is it possible to extend the sales into new markets or that these have been fully exploited? Product wise estimation should be made.
 - (iii) **Political and economic considerations:** Are the policies pursued by the Government likely to promote the extension of the market for goods to other countries? Whether the sales in the home market are likely to increase or decrease as a result of various emerging economic trends?
 - (iv) **Competition:** What is the likely effect on the business if other manufacturers enter the same field or if products which would sell in competition are placed on the market at cheaper price? Is the demand for competing products increasing? Is the company's share in total trade constant or has it been fluctuating?

Mock Test Paper - Series II: September, 2026

Date of Paper: 28th September, 2026

Time of Paper: 2 PM to 5 PM

FINAL COURSE: GROUP I

**PAPER-3: ADVANCED AUDITING, ASSURANCE AND
PROFESSIONAL ETHICS**

Time Allowed- 3 hours

Maximum Marks-100

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs)
3. Part II comprises questions which require descriptive type answers.

PART I – Multiple Choice Questions (MCQs) (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory.

Case Scenario I [MCQ 1-4]

Aarav Agro Products Limited is a public company engaged in manufacturing edible oil and has been in this business for 22 years. Its financial results for FY 2024–25 were:

S. No.	Particulars	Amount
1.	Aggregate outstanding loans, debentures and deposits	₹ 14 crore
2.	Turnover	₹ 120 crore
3.	Paid-up capital	₹ 60 crore
4.	Net Profit (after tax)	₹ 6 crore

For FY 2024–25, M/s Rohan & Associates were the statutory auditors. They identified significant internal control deficiencies and misstatements in Trade Payables and consequently issued a qualified audit report.

For FY 2025-26, the Board recommended Ms. Kavya as the statutory auditor to the members of the Company, as the management did not wish to re-appoint the previous auditors.

After reviewing the previous year's financial statements and audit report, Ms. Kavya identified understatement of Trade Payables balance as a significant audit risk. She determined materiality at ₹ 18,00,000 for conducting the audit of the year 2025-26.

While selecting samples for Vendor Balance Reconciliations, she considered:

- (i) Major vendors where confirmation balances agree with the General Ledger.
- (ii) Vendors having high-volume transactions with Aarav Agro Products Limited.
- (iii) Vendors having balances of ₹ 18,00,000 or more outstanding at the year-end.
- (iv) Vendors having balances of less than ₹ 18,00,000 outstanding at the year-end.

As at March 31, 2026, the balances of two vendors as per company's General Ledger and as per External Confirmation were as follows:

Vendor Name	Balance as per General Ledger	Balance as per External Confirmation
Meera Groundnut Suppliers Limited	₹ 18,00,000	₹ 24,00,000
Surya Sunflower Seeds Limited	₹ 72,00,000	₹ 90,00,000

Meera Groundnut Suppliers Limited:

The difference in the balance is due to one of the orders received by the Company. This order relates to a disputed consignment wherein the Company claims that the received raw material is of sub-standard quality, which was returned to the vendor on March 29, 2026.

Surya Sunflower Seeds Limited:

The difference relates to two invoices of ₹ 12,00,000 and ₹ 6,00,000, dated March 22 and March 26, 2026 respectively. The Accounts Payable Executive stated that both invoices were received on April 4, 2026 and were therefore not recorded as at March 31, 2026.

Ms. Kavya selected samples to verify Trade Payable balances covering approximately 25% of the population. During the audit, she came across two errors aggregating to ₹14,00,000:

- ₹ 5,00,000 due to an invoice not being recorded because of ineffective controls; and
- ₹ 9,00,000 due to a clerical error by Mr. Arjun, who came as temporary replacement of permanent accountant, Ms. Neha, for one week.

Based on the above facts, answer the following MCQs:

1. Which items should Ms. Kavya select for testing so as to get the samples on which Vendor Balance Reconciliations can be performed?
 - (i) Major Vendors where the confirmation balances agrees to General Ledger.
 - (ii) Vendors which have high volume of business with Aarav Agro Products Limited.
 - (iii) Vendors with balances of ₹ 18,00,000 or more outstanding at the year end.
 - (iv) Vendors with balances of less than ₹ 18,00,000 outstanding at the year-end.

- (a) i & iii.
 (b) ii, iii, & iv.
 (c) i & ii.
 (d) i, ii & iii. **(2 Marks)**
2. How can Ms. Kavya audit the operating effectiveness of internal control around the accounting of Trade payables?
- (a) Recalculating ageing of Trade Payables to identify the balances which may not be agreeing with the audit evidence.
 (b) Select samples from the supplier balance based on scientific Random Sampling approach & verify the third-party evidence.
 (c) Input a fake purchase invoice into the client system to see if it is processed accurately.
 (d) Calculate Trade Payables' days to use in the analytical procedures. **(1 Mark)**
3. What are the audit procedures that Ms. Kavya should perform to verify whether the payable balances of Surya Sunflower Seeds Ltd. are correctly recorded in the financial statements?
- (a) Send a confirmation to Surya Sunflower Seeds Ltd. to request to confirm the outstanding balance as at March 31, 2026.
 (b) Verify the bank payments for the period of post March 31, 2026, for any evidence of payment of invoice.
 (c) Review the listing of purchase order to confirm whether it pertains to the current year 2025-26 or it pertains to the next financial year.
 (d) Inspect the Goods Receipt Note to determine the date of receipt of raw material. **(1 Mark)**
4. What would be proper course of action to be taken by Ms. Kavya for two errors amounting to ₹ 5,00,000 and ₹ 9,00,000 in the given scenario?
- (a) The total amount of error is below the materiality and therefore it should not be considered or further work upon.
 (b) Ms. Kavya should ask Aarav Agro Products Limited to adjust ₹ 12,00,000 in the Payable balance and rectify the same.
 (c) Different set of samples representing the same amount should be selected to check whether same errors are getting repeated, if it is not, then the observation should be waived off.

- (d) The impact of errors noted in the audit of samples (test of details), should be projected and extrapolated across the whole population. **(1 Mark)**

Case Scenario II [MCQ 5-9]

Mr. Arjun was appointed as the engagement partner on behalf of Sapphire & Associates, a Chartered Accountant firm, to conduct the statutory audit of Orion Electricals Limited, an unlisted public company engaged in the manufacture of electrical equipment.

During the audit, CA Tiya, a senior member of the engagement team, was assigned the responsibility of examining matters relating to the requirements of CARO, 2020. Her major observations were as follows:

- One of the buildings owned by Orion Electricals Ltd. was revalued during the year based on a valuation report issued by a registered valuer. As a result, the aggregate carrying amount of Property, Plant and Equipment (PPE) increased from ₹ 13.2 crore to ₹ 15.8 crore.
- Orion Electricals Ltd. was sanctioned a cash credit limit of ₹5.40 crore by National Commercial Bank, secured against its current assets. The limit was reduced to ₹ 4.80 crore after six months. The company submitted quarterly stock statements to the bank, and the statements were found to be in agreement with the books of account.

Meanwhile, Sapphire & Associates was also appointed to conduct the audit of a State Housing Department. During the course of audit, the Office of the Comptroller & Auditor General of India (C&AG) observed that the applicable State law defined a “flat” on the basis of the following two criteria in a premises:

- Dwelling units exceeding a specified threshold; and
- Buildings having a total area surpassing a specified threshold.

However, the relevant database did not contain a field for recording the area of the building. Consequently, certain buildings were classified as flats merely on the basis of the number of dwelling units, even though they had fewer dwelling units below the prescribed threshold limit. Since information regarding the area was unavailable, the audit team directed physical verification of such flats. The physical verification revealed that these buildings had been incorrectly classified as flats, resulting in short collection of water charges by the department.

Further, CA Sameer, another partner of the firm, was engaged in the audit of Hydra Power Limited, a listed company engaged in thermal power generation. As part of its Business Responsibility and Sustainability Reporting (BRSR), the company disclosed information regarding its total greenhouse gas emissions from its production facilities during the year and a detailed plan for its projected energy consumption in the coming years.

CA Pooja, an independent Chartered Accountant who had recently completed a Certificate Course on Sustainability Reporting, was approached by CA Sameer for informal guidance on improving the company's sustainability disclosures. Impressed by her knowledge, CA Sameer subsequently recommended her name for appointment to the Board of Management of Pragat Co-operative Bank, a Primary (Urban) Co-operative Bank, which was also an audit client of the firm.

CA Rahul, another professional colleague, advised Pooja not to accept the position, stating that such acceptance could amount to professional misconduct.

Based on the above facts, answer the following MCQs:

5. With respect to Hydra Power Limited, which of the following statements correctly categorises the sustainability reporting indicators?
 - (a) Both the details of greenhouse gas emissions and future energy consumption plans form part of the Essential Indicators and are mandatorily required to be disclosed in the BRSR.
 - (b) The details of greenhouse gas emissions are a Leadership Indicator and constitute an optional disclosure, whereas the plan for future energy consumption is an Essential Indicator and is mandatorily required to be disclosed in the BRSR.
 - (c) Both the details of greenhouse gas emissions and future energy consumption plans form part of the Leadership Indicators and are optional disclosures.
 - (d) The details of greenhouse gas emissions form part of the Essential Indicators and are mandatorily required to be disclosed, whereas the plan for future energy consumption is a Leadership Indicator and is an optional disclosure. **(2 Marks)**
6. Whether reporting is required under CARO, 2020 in respect of sanctioned working capital limits?
 - (a) Yes, reporting is required under Clause (ii)(b) of Paragraph 3, as the company was sanctioned working capital limits in excess of ₹ 5 crore.
 - (b) No reporting is required under CARO, 2020.
 - (c) No, reporting is not required under Clause (ii)(b) of Paragraph 3 because the working capital limit was subsequently reduced below ₹ 5 crore.
 - (d) Yes, reporting is required under Clause (iii)(a) of Paragraph 3, since the company was sanctioned working capital limits in excess of ₹ 5 crore. **(1 Mark)**
7. The report on the audit of the State Housing Department by the C&AG is likely to be submitted to:
 - (a) The Board of the Authority directly.

- (b) The Governor of the State.
 - (c) The Central Government.
 - (d) The Ministry of Housing and Urban Affairs. **(1 Mark)**
8. Whether CA Pooja would be held guilty of professional misconduct if she accepts the offer to become a member of the Board of Management of Pragat Co-operative Bank, a Primary (Urban) Co-operative Bank?
- (a) It is permissible for a CA in practice to become a member of the Board of Management of primary (rural) co-operative banks. Hence, CA Pooja would be held guilty of professional misconduct if she accepts the offer.
 - (b) It is permissible for a CA in practice to become a member of the Board of Management of primary (urban) co-operative banks. Hence, CA Pooja would not be held guilty of professional misconduct if she accepts the offer.
 - (c) Yes. CA Pooja would be held guilty of professional misconduct under Part III (other misconduct in relation to members of the Institute generally) of the Second Schedule, as the offer was made as a reciprocation for providing assistance to Sapphire & Associates.
 - (d) Yes. As per Clause 11 of Part I of the First Schedule, CA Pooja would be held guilty of professional misconduct for engaging in another profession or occupation without the permission of ICAI. **(2 Marks)**
9. As per CARO, 2020, what should be the auditor's reporting responsibility regarding the revaluation of Property, Plant and Equipment carried out by Orion Electricals Ltd.?
- (a) No reporting is required as the revaluation is based on a report issued by a registered valuer.
 - (b) Reporting is required under Clause (i)(d) of Paragraph 3 since the company has revalued its PPE and the amount of change exceeds 10% of the net carrying amount of each class of asset.
 - (c) Reporting is required under Clause (i)(c) of Paragraph 3 since the company has revalued its PPE and the amount of change exceeds 10% of the net carrying amount of each class of asset.
 - (d) Reporting is not required under Clause (i)(d) of Paragraph 3 as the amount of change does not exceed 10% of the net carrying amount of each class of asset. **(2 Marks)**

Case Scenario III [MCQ 10-13]

The Arogya Bank Ltd. was having 130 branches all over India by the year ending 31st March, 2026. 10 branches of the bank were already covered for concurrent audit and the Bank's Audit

Committee decided to include the below-mentioned branches for concurrent audit from the year 2025-26.

- (i) Bareilly branch, which started foreign exchange business from December 2025.
- (ii) Ambala branch, whose aggregate deposits were more than 45% of the aggregate deposits of the bank.
- (iii) Kota branch, which deals in treasury functions like investments and inter-bank borrowings but not in bill re-discounting.

Sukh and Associates, Chartered Accountants were appointed as the stock auditors by the Bank's Audit Committee for ten branches for the year 2025-26. The Bank's management appointed and fixed the remuneration of Sukh and Associates, Chartered Accountants as the statutory auditors also for the year 2025-26, for the same ten branches for which they were given the assignment of stock audit.

At the Kochi branch of the bank, there were high-value cash deposits in one of the current accounts during June 2025. Your firm has been appointed as the concurrent auditors for the Kochi branch for the year 2025-26. The cash collected by the branch was remitted to the currency chest on the very same day. However, during the concurrent audit for the month of April 2025 itself, the auditor noticed that the branch was unable to show intimations sent via e-mail to the currency chest for the cash remittance.

Based on the above facts, answer the following MCQs:

10. Whether the Bank's Management is authorised to appoint and fix the remuneration of statutory auditors without consulting the Audit Committee of the Board of Directors or members in Annual General Meeting? Select correct option from the following:
 - (a) Bank's Management can appoint and fix the remuneration of statutory auditors only in consultation with the Audit Committee of the Board of Directors.
 - (b) Sukh and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, therefore only audit committee was authorised to appoint or fix their remuneration as statutory auditors.
 - (c) Sukh and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorised to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.
 - (d) Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank.

(1 Mark)

11. Sukh and Associates, Chartered Accountants were already appointed for stock audit by the audit committee for the ten branches, so whether Sukh and Associates, Chartered Accountants are authorised to accept the appointment as statutory auditors for the same branches? Select the correct option from the following:
- (a) Sukh and Associates, Chartered Accountants can accept the appointment as they were already appointed for the stock audit of those branches by the audit committee.
 - (b) Sukh and Associates, Chartered Accountants can accept the appointment as they have been appointed statutory auditors for the same ten branches for which they were conducting stock audit.
 - (c) Sukh and Associates, Chartered Accountants cannot accept the appointment as the audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.
 - (d) Sukh and Associates, Chartered Accountants cannot accept the appointment as it was not offered by the audit committee and Bank's management is not authorised to appoint the auditors. **(2 Marks)**
12. How the discrepancy of not preserving the intimations of cash remittances to currency chest by Kochi branch of the bank should be dealt by the concurrent auditor in his audit report? Select correct option from the following:
- (a) The auditor should report the matter as a major irregularity in his audit report to the management.
 - (b) The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.
 - (c) The auditor should verify the details from e-mail sent to currency chest and close the matter.
 - (d) As it is a minor irregularity the auditor can ignore the same. **(1 Mark)**
13. You have been asked by your senior to verify the high value cash deposits at the Kochi branch. What parameters/ documents will you verify as the concurrent auditor of the branch? Select the correct option from the following:
- (a) Concurrent auditor has to verify the details of cash remittance to Currency Chest only.
 - (b) You need to verify the KYC documents of the customer/s and the reason for high value cash deposit in the account like nature of business or sale of property etc.

- (c) Verify the KYC documents of the account in which cash is deposited; verify the reason for high value cash deposit in the account like nature of business/ transaction etc.; verify the discrepancies found in the cash of the customer/s, if any and ensure that the records of Currency Chest remittance are maintained properly.
- (d) As a concurrent auditor you need to verify the reason of regular cash deposit in the account/s and the nature of discrepancies, if any, found in cash deposited by the customer/s. **(1 Mark)**

Case Scenario IV [MCQ 14-17]

M/s GAME & Co., a firm of Chartered Accountants, recently launched its official website "Game-ca.com". The website featured bright neon colours, details of the partners, and listed some major clients with the fees charged. The website also used a "push" technology, where updates were automatically sent to subscribers without them requesting it.

Around the same time, Mr. Shiv, a partner in the firm, appeared on a business channel TV interview and handed over a bio-data of the firm to the interviewer. The bio-data contained details of:

- The firm's international affiliations.
- Personal achievements and awards of Mr. Shiv as a tax expert.
- Notable clients handled by the firm.

Later, another partner, Mr. Balveer, published a congratulatory advertisement in a leading newspaper with his photograph on the occasion of opening a new branch office.

Further, M/s GAME & Co. was appointed as the statutory auditor of RST Ltd., a company covered under CARO 2020. While reporting under Paragraph 3 of CARO 2020 relating to property, plant and equipment, inventory, statutory dues, and borrowings, the audit team relied on system-generated MIS reports from the company's ERP system, and management representations confirming the accuracy and completeness of such information.

The audit team did not carry out independent verification of underlying records or evaluate the effectiveness of internal controls, on the assumption that consistency between MIS reports and management representations provides sufficient audit evidence.

Based on the above facts, answer the following MCQs:

14. Regarding the website "Game-ca.com", which of the following statements is correct under the Guidelines issued by Council?
- (a) The firm is fully compliant because there is no restriction on website colours.

- (b) The firm is in violation of guidelines because it uses “push” technology and discloses client names and fees without regulatory requirement.
 - (c) The website is compliant because disclosure of clients and fees is allowed on the firm’s discretion.
 - (d) The firm is only liable if the website is used to actively solicit new clients. **(2 Marks)**
15. Whether Mr. Shiv will be held guilty for professional misconduct for handing over the firm’s bio-data during a TV interview under the Chartered Accountants Act, 1949 and Schedules thereto?
- (a) Yes, Mr. Shiv will be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 because handing over bio-data promoting the firm and the partner’s achievements indirectly solicits professional work.
 - (b) No, Mr. Shiv will not be held guilty of professional misconduct as the partner did not personally read out the bio-data on TV.
 - (c) No, Mr. Shiv will not be held guilty of professional misconduct as long as the bio-data was factual.
 - (d) Yes, Mr. Shiv will be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, if the TV channel ran advertisements alongside the bio-data. **(1 Mark)**
16. In the given case, whether approach of audit team i.e., relying on written representation and MIS with respect to reporting under relevant Standards on Auditing and CARO 2020 is appropriate?
- (a) The auditor’s approach is appropriate since consistency between MIS reports and management representations is sufficient for compliance with SAs and CARO 2020 reporting.
 - (b) The auditor’s approach is acceptable as reporting largely involves matters based on information and explanations provided by management during the audit.
 - (c) The auditor’s approach is inappropriate because management representations and system-generated MIS cannot substitute independent audit procedures required for compliance with SAs and CARO 2020 reporting.
 - (d) The auditor’s approach is justified unless there is a specific indication of fraud or material misstatement. **(2 Marks)**

17. Whether the publishing of the photograph by Mr. Balveer is permissible under the Chartered Accountants Act, 1949 and the Schedules thereto?
- Yes, it is permissible as it merely conveys information about an event and does not amount to solicitation of professional work.
 - Yes, it is permissible since the publication highlights personal credentials of the partner and does not involve advertisement of professional services.
 - No, it is not permissible as it indirectly solicits professional work and promotes the partner and the firm and tantamount to professional misconduct.
 - Yes, it is permissible provided the publication does not contain any reference to services rendered or fees charged. **(1 Mark)**
18. While conducting an internal audit of the Human Resource function of NovaTech Industries Ltd., the Chief Internal Auditor (CIA) reviews the recruitment process and notices that certain candidates were selected despite not meeting the prescribed eligibility criteria. During further review, the CIA also observes unusual changes in recruitment records and finds indications that the selection process may have been influenced by a senior employee.
- What should be the CIA's most appropriate initial response to this observation?
- Immediately discuss the matter with the Head of HR and ask him to take corrective action against the persons involved.
 - Continue gathering evidence and wait until completion of the internal audit before reporting the matter as a high-risk observation in the audit report.
 - Restrict the audit response to reporting deficiencies in the recruitment process, as investigation of fraud is outside the scope of a regular internal audit.
 - Assess the risk of evidence tampering and possible involvement of key personnel, and appropriately escalate the red flag to the CEO/MD or Audit Committee for initiating a detailed investigation. **(1 Mark)**
19. While assessing the risk of material misstatement at the assertion level of Pink Limited, CA R expects that the controls relating to revenue are operating effectively. In particular, he expects that the company has robust controls in place to prevent overstatement of revenue and intends to place reliance on such controls. Which of the following statements is most appropriate in the above situation?
- He should design and perform tests of controls that provide him with more persuasive audit evidence.

- (b) He should design and perform tests of controls that provide him with less persuasive audit evidence.
 - (c) He should not design and perform tests of controls.
 - (d) He should design and perform tests of controls in such a manner that shows their operating effectiveness at year-end. **(1 Mark)**
20. CA Rohan, auditor of a listed company, Nova Technologies Limited, signed its audit report on 21.8.2025. The Regulator called for the audit documentation in connection with certain proceedings on 20.7.2026. CA Rohan submitted the audit documentation in the form of editable Excel files without any security features on 10.8.2026. It was subsequently observed that the audit documentation had been modified between 20.7.2026 and 10.8.2026 by deleting certain information and inserting fresh information in its place. Which of the following statements is likely to be correct in this regard?
- (a) Audit documentation was required to be assembled by 21.8.2025. Modification of the audit documentation after 21.8.2025 was generally not permissible.
 - (b) Audit documentation was required to be assembled by 21.8.2025. Modification of the audit documentation before 20.7.2026 was generally permissible.
 - (c) Audit documentation was required to be assembled by 20.10.2025. Modification of the audit documentation before 20.7.2026 was generally permissible.
 - (d) Audit documentation was required to be assembled by 20.10.2025. Modification of the audit documentation after 20.10.2025 was generally not permissible except in certain exceptional circumstances. **(1 Mark)**
21. STU Limited has appointed Mr. X to conduct an internal audit of its purchase function. During the audit, Mr. X notices certain unusual purchase transactions and decides to verify the authenticity of the purchases by obtaining information from selected vendors. Which of the following is the most appropriate course of action for Mr. X?
- (a) Mr. X should not contact any third party, as obtaining information from vendors is outside the scope of an internal audit.
 - (b) Mr. X may approach selected vendors through management, unless there is a specific reason such as suspected fraud requiring a different approach, and obtain relevant audit evidence.
 - (c) Mr. X may directly contact any vendor without informing management and ask the vendor to provide the required information directly to him.

- (d) Mr. X should exclude such verification from the audit scope and rely only on the documents and records maintained by the company. **(1 Mark)**
22. During the statutory audit of Olive Manufacturing Ltd., the company has been incurring significant losses and is unable to meet its financial obligations as they fall due. The auditor concludes that the company is not expected to continue as a going concern and that the use of the going concern of accounting is inappropriate. However, management has prepared the financial statements using the going concern basis. What should the auditor do in this situation?
- (a) Express an adverse opinion on the financial statements.
- (b) Express a qualified opinion on the financial statements.
- (c) Express a disclaimer of opinion due to the uncertainty surrounding the company's future operations.
- (d) Express an unmodified opinion and include an Emphasis of Matter paragraph highlighting the related disclosure. **(1 Mark)**
23. Secure Health Insurance Limited, engaged in the health insurance business, has implemented a technology-enabled claim management system. Under the system, when a claim is submitted through the company's website, the claimant is provided with a digital form for completion and authentication. The information submitted by the claimant is automatically processed and validated by the system by comparing it with the relevant data already available in the company's records. This has enabled the company to process claims more quickly, reduce manual intervention and improve the accuracy of data validation.
- Based on the above circumstances, which of the following technologies is most likely to have been used by Secure Health Insurance Limited?
- (a) Power BI.
- (b) Internet of Things (IoT).
- (c) Robotic Process Automation (RPA).
- (d) Data Analytics. **(1 Mark)**

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

1. (a) CA Yatin was the engagement partner for the statutory audit of ABC Ltd., a listed company, for the financial year 2025-26. CA Rohan was appointed as the Engagement Quality Control Reviewer (EQCR) for the engagement. Due to CA Rohan being on leave, the EQCR could not be completed by 25th May 2026.

Considering the approaching deadline for submission of the financial statements, CA Yatin signed and dated the auditor's report on 25th May 2026. CA Rohan resumed duties and completed the EQCR on 28th May 2026. During the review, he evaluated significant judgments made by the engagement team, including the conclusions relating to a material accounting estimate and the appropriateness of the auditor's report.

CA Yatin contended that since sufficient appropriate audit evidence had already been obtained and the audit procedures were substantially completed, the auditor's report could be dated before completion of the EQCR. He further stated that any matter arising from the EQCR could be considered subsequently.

Examine, whether approach of CA Yatin is appropriate. Also state the requirements relating to the completion of the EQCR and dating of the auditor's report. **(5 Marks)**

- (b) Examine, with reasons, the type of modified opinion, if any, to be expressed by the auditor in each of the following independent situations:
 - (i) During the audit of Oceanic Marine Ltd., the company maintained a substantial portion of its inventory at a warehouse which was severely damaged by fire three days before the year-end. The inventory records relating to the warehouse were also destroyed. The auditor was unable to attend the physical verification conducted subsequently and, owing to the extent of damage, was unable to perform alternative audit procedures to determine the quantity and condition of the inventory. The inventory constituted 18% of the company's total assets. The auditor assessed that the possible effects of the inability to obtain sufficient appropriate audit evidence were material but not pervasive to the financial statements.

Management, however, refused to provide any additional disclosure regarding the matter in the financial statements.

- (ii) During the audit of the consolidated financial statements of Trident Holdings Ltd., the auditor identified that the company had not consolidated Alpha Ltd., a subsidiary acquired during the year. Management contended that consolidation was not necessary as Alpha Ltd. was expected to be sold in the near future. However, the applicable financial reporting framework required Alpha Ltd. to be consolidated. The subsidiary represented 32% of the consolidated assets and 28% of consolidated revenue. The auditor concluded that the omission resulted in a misstatement which was material and pervasive to the consolidated financial statements. Management refused to make the necessary adjustments.
- (iii) During the audit of Vertex Infrastructure Ltd., the auditor was unable to obtain sufficient appropriate audit evidence regarding revenue recognised on certain long-term contracts, impairment of a major project and the recoverability of certain trade receivables. These matters affected multiple elements of the financial statements and represented a significant portion of the company's assets and revenue. Despite repeated requests, management did not provide the underlying contracts and supporting records. The auditor considered whether alternative audit procedures could be performed but concluded that the possible effects of the undetected misstatements could be both material and pervasive. The auditor was, therefore, unable to obtain sufficient appropriate audit evidence to form a basis for an opinion on the financial statements. **(5 Marks)**
- (c) Summit Distributors Pvt. Ltd. is availing working capital facilities from a bank. The bank has specifically requested the company to obtain an auditor's report on the trade receivables balance of ₹18 crore as at 31 March 2026, since the amount is being considered for determining the drawing power. The company has separately appointed the auditor for audit of its complete set of financial statements. The management proposes to provide a schedule of trade receivables along with an ageing analysis.

Advise the auditor regarding the considerations while planning and performing the above audit engagement, with reference to SA 805. **(4 Marks)**

2. (a) M/s M & T, a firm of Chartered Accountants having three partners, has been actively involved in professional development and social welfare initiatives. During the financial year 2025–26, the following instances were observed during a peer review:

- (i) **Sponsorship of an ICAI Programme Organising Unit (PoU):** The firm provided financial support for a “Seminar on Emerging Trends in Audit and Assurance” organised by a Programme Organising Unit (PoU) of the ICAI. However, the firm’s sponsorship was made without obtaining prior approval from the CPE Directorate of the ICAI. The firm’s name was subsequently displayed on the event’s promotional material as a sponsor.
- (ii) **CSR Activity by Partner:** One of the partners, CA Gunjan, contributed towards a Tree Plantation and Environmental Awareness Drive undertaken as part of a CSR initiative. The event banners displayed:

"An initiative supported by CA Gunjan (Partner, M&T)" [Firm's logo was displayed at the side corner of the banner]

Analyse the professional and ethical implications of the above situations in light of the ICAI Code of Ethics. **(5 Marks)**

- (b) During the audit of Apex Plastics Ltd. for the year ended 31 March 2026, the audit team noticed unusual variations in the purchases recorded during certain months. On further examination, it was found that the store-in-charge had been creating fictitious purchase invoices and supporting documents and diverting the corresponding payments to himself over the preceding two years. The amount involved was approximately ₹1.20 crore. In certain instances, the store-in-charge had also forged the purchase manager’s signature appearing on the approval documents.

The auditor brought the matter to the attention of the management. The management stated that it was the auditor’s responsibility to detect and prevent such frauds during the audit and that the management could not be held responsible for the failure of the internal controls. The management further indicated that, if the matter was pursued further, it might consider not renewing the auditor’s appointment for the next financial year.

With reference to SA 240, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”, examine the respective responsibilities of

management and the auditor in relation to fraud and state the course of action that should be followed by the auditor in the above circumstances. **(5 Marks)**

- (c) ABC Ltd., a listed company, allows employees to access the company's systems through laptops and mobile devices. During the audit, the auditor observed the following incidents:

- An employee received a phishing email containing a link that appeared to be from a trusted software provider. After clicking the link and installing the software, the attacker gained unauthorised access to the employee's system.
- Several company files were subsequently encrypted and made inaccessible, and the attacker demanded payment in exchange for providing the decryption key.

Identify the two types of malware involved in the above situations and explain their mode of attack. **(4 Marks)**

3. (a) RST Ltd. is a manufacturing company. While auditing its financial statements for FY 2025-26, the auditor notes that:

- (i) Management has recognised a warranty provision of ₹ 80 lakhs, estimated from past claim trends.
- (ii) An unquoted investment is measured at fair value using a valuation model with inputs that are not observable in the market.
- (iii) The provision for doubtful debts was reduced from 6% to 3% of trade receivables, although the ageing of receivables has worsened.

Explain how the auditor should obtain sufficient appropriate audit evidence on these accounting estimates as per SA 540. **(5 Marks)**

- (b) SOP Ltd., a listed company, has three subsidiaries whose financial statements are consolidated for the year ended 31 March 2026. The subsidiaries are audited by different auditors. During the audit of the consolidated financial statements, CA R, the principal auditor, observes the following:

- Materiality determined separately by the component auditors for their respective standalone financial statements differs significantly from the materiality determined by CA R for the group as a whole.

- One subsidiary contributes 28% of the total assets and 24% of the revenue of the group. Its component auditor has reported a qualified opinion on the subsidiary's financial statements.
- CA R proposes to consider the qualification only with reference to its effect on the subsidiary's standalone financial statements and does not propose to reassess its effect on the consolidated financial statements.
- The component auditors have not been specifically communicated the materiality determined by CA R for the purpose of the consolidated financial statements.

With reference to SA 600, "Using the Work of Another Auditor", explain the matters that CA R should consider in determining materiality and evaluating the observations of the component auditor for the purpose of reporting on the consolidated financial statements. **(5 Marks)**

(c) PQR Ltd., a company maintaining its books of account through an ERP-based accounting system is required to comply with the provisions relating to audit trail under the Companies (Accounts) Rules, 2014. During the audit of the financial statements for the year ended 31 March 2026, CA Meera noted the following:

- The audit trail functionality in the payroll module was not activated during the year.
- For the other modules, the audit trail functionality was activated only from 1 July 2025.
- The ERP application maintained logs of changes made through the application; however, direct changes made at the database level were not captured in the audit trail.
- Users having administrative privileges could deactivate the audit trail functionality without requiring any independent approval or authorisation.
- Management represented to the auditor that the audit trail was otherwise functioning properly and that no material manipulation of accounting records had come to its notice.

With reference to the Companies Act, 2013, examine the above observations and explain the auditor's reporting responsibilities in respect of the audit trail for the financial year 2025-26. **(4 Marks)**

4. (a) Raja & Co., Chartered Accountants, are the statutory auditors of Rani Ltd., a listed company, for the year ended 31 March 2026. The annual report of Rani Ltd. contains segment information relating to its various business segments. During the audit, the auditors observed that there were significant sales and transfers between segments and that certain common assets and costs had been allocated among the segments. They also noticed that the basis of allocation of certain costs differed from the previous year.

The auditors intend to obtain an understanding of the methods used by the management in determining and presenting the segment information and to assess whether such methods are likely to result in disclosures in accordance with the applicable financial reporting framework.

With reference to the relevant Standards on Auditing, explain the 'examples of matters' that the auditors should consider while obtaining an understanding of the methods used by management in determining and presenting segment information in the financial statements. **(5 Marks)**

- (b) PN and Associates are appointed as the Statutory Auditors of The Iron Company Ltd. The Central Government holds 65% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to PN and Associates for accepting the audit. CA N, the engagement partner communicated with the previous auditor but due to lack of time, he had to give acceptance for the audit assignment before receiving reply from the previous auditor. Hence CA N gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1949 and the schedules thereunder, whether CA N has complied with same.

(5 Marks)

- (c) GreenEarth Ltd., a listed company, is among the entities required to provide sustainability-related disclosures. During the year, the company faced increasing exposure to climate-related matters, including stricter environmental regulations, transition towards low-carbon operations and the risk of impairment of certain carbon-intensive assets. Management has included information regarding these matters in its annual report and has also made several climate-related claims in its sustainability disclosures.

In the context of the above, describe the role of auditor in an audit of financial statements of the company. **(4 Marks)**

5. (a) Narayan & Co. is the statutory auditor of Joy Ltd., a company engaged in the tours and travel business. During the audit of the financial statements for the year ended 31 March 2026, the audit team discussed with management the need for written representations in relation to management's responsibilities.

The management orally confirmed that:

- (i) all relevant information and access agreed upon in the terms of the audit engagement had been provided to the auditor; and
- (ii) all transactions had been recorded and were reflected in the financial statements.

Towards the completion of the audit, management contended that since these confirmations had already been given orally during the course of the audit, obtaining a separate written representation was unnecessary. Despite repeated requests by Narayan & Co., management declined to provide the written representations.

- (I) Examine whether the auditor is required to obtain written representations in respect of the above matters, notwithstanding the oral confirmations provided by management.
- (II) State the form in which the written representations should ordinarily be obtained.
- (III) Explain the course of action to be followed by the auditor when management refuses to provide the requested written representations.

(5 Marks)

- (b) CA Puneet, engagement partner for the audit of a listed company, decided to use the work of the company's internal audit function for testing certain controls over the payroll cycle, without evaluating the objectivity, competence and level of due professional care of the internal auditors, and without discussing the planned use of their work with them. With reference to SA 610, examine whether CA Puneet's approach is appropriate.

(5 Marks)

- (c) CA Ajeet, a Chartered Accountant in practice, was appointed as the statutory auditor of Climax Manufacturing Limited. After accepting the appointment, he became aware that certain provisions of the Companies Act, 2013 required the auditor to perform specific procedures and discharge certain statutory

responsibilities. However, while conducting the audit, CA Ajeet did not comply with the prescribed requirements and instead followed procedures that were inconsistent with the provisions of the Companies Act, 2013.

With reference to the Chartered Accountants Act, 1949 and Schedules thereto, examine whether CA Ajeet is guilty of professional misconduct. **(4 Marks)**

6. (a) CA Arjun, CA Bharat and CA Chirag have been appointed as joint auditors of BCA Ltd., a company having manufacturing units at three different locations. Before commencement of the audit, CA Arjun suggests that the three auditors should independently decide their areas of work without any prior discussion. CA Bharat proposes that the audit work should be mutually divided, while significant matters such as revenue recognition, related party transactions and major accounting estimates should be considered as common audit areas. CA Chirag further suggests that the joint auditors should determine the reporting requirements, significant matters and resources required before commencing the audit.

State whether the approach suggested by CA Bharat and CA Chirag is appropriate. Explain the key matters that the joint auditors should consider while developing the joint audit plan before commencement of the audit. **(5 Marks)**

- (b) While assessing the impact of uncorrected misstatements in the audit of Super Builders Private Limited, Mr. Mahavir encountered a significant issue related to the calculation of materiality on revenue. The initial materiality calculation was based on estimated figures provided by the management. Management, to estimate full-year revenue, extrapolated the sales for 11 months to arrive at a figure for 12 months. However, given the nature of Super Builders as a company in the construction sector, where monthly sales exhibit substantial variations, a unique challenge emerged. The actual sales for the last month deviated significantly from the estimated sales due to an unexpected slowdown in project completions. As a result, the last month's actual sales represented only 30% of the estimated sales. Now, Mr. Mahavir is confronted with a dilemma regarding the appropriate approach to evaluate uncorrected misstatements using the previously calculated materiality. Kindly Guide Mr. Mahavir in the light of relevant Standards on Auditing. **(5 Marks)**

- (c) Dheer & Co., a sole proprietary Chartered Accountancy firm, has its office in a busy commercial area of the city. Since a substantial number of its clients are located in an industrial cluster situated 26 kilometres from the firm's office,

CA Dheer, the proprietor, finds it difficult to attend to their consultancy requirements regularly. Accordingly, he opens a facilitation centre in the industrial cluster for providing services to such clients.

The proprietor himself manages both the existing office and the facilitation centre. However, no intimation regarding the facilitation centre, including the declaration of the main office, is made to the Institute of Chartered Accountants of India.

Examine, with reference to the provisions of the Chartered Accountants Act, 1949, whether CA Dheer would be held liable for any professional misconduct.

(4 Marks)

OR

- (c) VBL Ltd. has approached a bank for a substantial term loan to expand its manufacturing capacity. The bank has requested an investigation into the profitability and financial position of the business before sanctioning the loan. The investigating accountant is also required to assess whether the projected profits would be sufficient to meet the proposed repayment schedule and whether the existing and proposed assets would provide adequate security for the loan.

As the investigating accountant, what procedures would you undertake to investigate the profitability and financial position of VBL Ltd. for the purpose of the loan appraisal?

(4 Marks)

Mock Test Paper - Series II: September, 2026

Date of Paper: 28th September, 2026

Time of Paper: 2 PM to 5 PM

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

ANSWERS

1.	(b)	13.	(c)
2.	(c)	14.	(b)
3.	(d)	15.	(a)
4.	(d)	16.	(c)
5.	(d)	17.	(c)
6.	(a)	18.	(d)
7.	(b)	19.	(a)
8.	(b)	20.	(d)
9.	(b)	21.	(b)
10.	(d)	22.	(a)
11.	(c)	23.	(c)
12.	(b)		

PART – II: DESCRIPTIVE QUESTIONS

1. (a) As per SA 220, “Quality Control for an Audit of Financial Statement”, the engagement partner shall take responsibility for reviews being performed in accordance with the firm’s review policies and procedures. For audits of the financial statements of listed entities, the engagement partner shall:
 - Determine that an engagement quality control reviewer has been appointed;
 - Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
 - Not date the auditor’s report until the completion of the engagement quality control review.

Further, the engagement quality control reviewer (EQCR) performs an objective evaluation of the significant judgments made by the engagement team and the

conclusions reached in formulating the auditor's report. This includes significant matters such as conclusions relating to material accounting estimates and the appropriateness of the auditor's report.

In the given case, CA Rohan, the EQCR, completed the engagement quality control review only on 28th May 2026, whereas CA Yatin had already signed and dated the auditor's report on 25th May 2026. Thus, CA Yatin dated the auditor's report before completion of the required engagement quality control review, which is contrary to SA 220.

Further, SA 700, "Forming an Opinion and Reporting on Financial Statements", requires the auditor's report to be dated not earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements. In cases of an audit of financial statements of listed entities where the engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained and the auditor is able to appropriately conclude before dating the report.

The fact that CA Rohan was on leave or that CA Yatin expected no material issue to arise does not justify dating the report before completion of the engagement quality control review.

Thus, CA Yatin's approach is not appropriate and is not in accordance with SA 220. The EQCR should have been completed by CA Rohan before the auditor's report was dated. Conducting the engagement quality control review at an appropriate stage and completing it on or before the report date would have enabled significant matters to be resolved to the engagement quality control reviewer's satisfaction before the report was dated.

- (b) As per SA 705, "Modifications to the Opinion in the Independent Auditor's Report", the auditor shall modify the opinion when the financial statements are materially misstated or when the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. The type of modification depends upon the nature of the matter and whether its effects are material and pervasive.
 - (i) **Oceanic Marine Ltd. – Qualified Opinion:** The destruction of inventory records and the auditor's inability to attend the physical verification or perform alternative audit procedures result in an inability to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. Thus, the matter represents a scope limitation.

Although the inventory constitutes a significant portion of the company's assets, the auditor has determined that the possible effects of the inability to obtain sufficient appropriate audit evidence are material but not pervasive to the financial statements. Accordingly, the auditor shall express a Qualified Opinion.

The fact that management has refused to provide additional disclosure does not by itself change the type of opinion, as the underlying matter giving rise to the modification remains an inability to obtain sufficient appropriate audit evidence, with effects assessed as material but not pervasive.

- (ii) **Trident Holdings Ltd. – Adverse Opinion:** The failure to consolidate Alpha Ltd., despite the applicable financial reporting framework requiring its consolidation, constitutes a misstatement of the consolidated financial statements arising from non-compliance with the applicable financial reporting framework.

The subsidiary represents a significant portion of the consolidated assets and revenue, and the auditor has assessed the resulting misstatement as material and pervasive. Further, management has refused to make the necessary adjustment.

Accordingly, the auditor shall express an Adverse Opinion, as the misstatement is both material and pervasive to the consolidated financial statements.

- (iii) **Vertex Infrastructure Ltd. – Disclaimer of Opinion:** In this case, the auditor is unable to obtain sufficient appropriate audit evidence regarding several significant matters, including revenue from long-term contracts, impairment of a major project and recoverability of trade receivables. The auditor has also determined that alternative audit procedures cannot provide sufficient appropriate audit evidence.

The possible effects of undetected misstatements are assessed as material and pervasive, and the auditor is unable to obtain sufficient appropriate audit evidence to form a basis for an opinion on the financial statements.

Accordingly, the auditor shall disclaim an opinion, as the possible effects of undetected misstatements could be both material and pervasive.

- (c) As per SA 805, “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”, in planning and performing the audit of a single financial statement or of a specific element of

a financial statement, the auditor shall adapt all SAs relevant to the audit as necessary in the circumstances of the engagement. The relevance of each of the SAs requires careful consideration. Even when only a specific element of a financial statement is the subject of the audit, SAs such as SA 240, SA 550 and SA 570 are, in principle, relevant. This is because the element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

SA 260 requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate. SA 260 notes that, in some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognise this position. When complete set of financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the single financial statement or the element may not be the same as those charged with governance responsible for the oversight of the preparation of the complete set of financial statements.

When auditing a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the financial statement or the element. SAs, however, require the auditor to plan and perform the audit of the financial statement or element to obtain sufficient appropriate audit evidence on which to base the opinion on the financial statement or on the element.

The individual financial statements that comprise a complete set of financial statements, and many of the elements of those financial statements, including their related notes, are interrelated. Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the financial statement or the element in isolation. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.

Furthermore, the materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the entity's complete set of financial statements; this will affect the nature, timing and extent of the audit procedures and the evaluation of uncorrected misstatements.

2. (a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 refers to professional misconduct of a member in practice if he solicits client or professional work either directly or indirectly, by circular, advertisement, or personal communication or interview or by any other means.

There are some forms of soliciting work which the council has prohibited, which includes Sponsoring Activities:

- Member in practice or a Firm of Chartered Accountants is not permitted to sponsor an event. However, such member or Firm may sponsor an event conducted by a Programme Organising Unit (PoU) of the ICAI, provided such event has the prior approval of Continuing Professional Education (CPE) Directorate of the ICAI.
- Members sponsoring activities relating to Corporate Social Responsibility may mention their individual name with the prefix "CA". However, the mention of Firm name or CA Logo is not permitted.
 - (i) In the given situation, M/s. M&T, a firm of Chartered Accountants, contributed funds to the " Seminar on Emerging Trends in Audit and Assurance " organized by Program Organising Unit of the ICAI without the prior approval from the CPE Directorate. Therefore, M/s M&T shall be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 since member or firm may sponsor an event conducted by a Programme Organizing Unit (PoU) of the ICAI with the prior approval of Continuing Professional Education (CPE) Directorate.
 - (ii) In the given situation, CA Gunjan, a partner of firm who personally contributed towards a CSR-related environmental initiative, displayed the name, designation and Firm Logo in the posters and banners at the bottom corner of the banner. Therefore, she will be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 as members sponsoring activities relating to CSR may mention their individual name with the prefix "CA" but mention of Firm name or CA Logo is not permitted.

- (b) As per SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and

management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced by an active oversight by those charged with governance.

When obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.

In the present case, the creation of fictitious purchases, diversion of payments amounting to approximately ₹ 1.20 crore and forgery of the purchase manager's signature indicate fraud as well as significant deficiencies in controls over purchase recording, authorisation and payment. The auditor should, accordingly, take the following steps:

- The auditor should communicate the identified fraud on a timely basis to the appropriate level of management and, where appropriate, to those charged with governance.
- The auditor should evaluate the implications of the identified fraud for the assessment of risks of material misstatement due to fraud and determine whether the audit procedures performed are adequate. Where necessary, the auditor should modify or extend the audit procedures.
- Since the fraud remained undetected over a period of two years and involved falsification of supporting documents, the auditor should consider the reliability of management representations and whether the circumstances raise concerns regarding the integrity of management or those charged with governance.
- The auditor should determine whether the fictitious purchases and related misappropriation have resulted in material misstatements in the financial statements and whether appropriate adjustments have been made. If a material misstatement remains uncorrected, the auditor should consider the consequent effect on the auditor's opinion in accordance with SA 705.
- The auditor should consider whether the fraud attracts any statutory or regulatory reporting requirements, including the applicable requirements under the Companies Act, 2013, and comply with such requirements.

Accordingly, the management's contention that the prevention and detection of fraud is solely the auditor's responsibility is not correct. The primary responsibility rests with management and those charged with governance. The auditor should nevertheless appropriately respond to the identified fraud, reassess the risk of material misstatement, perform additional procedures where necessary, communicate the matter, consider the reporting implications and comply with applicable statutory requirements. The management's indication that it may not renew the auditor's appointment should not affect the auditor's professional judgement or discharge of the responsibilities under SA 240.

(c) The two types of malwares involved are:

- Trojan: A Trojan is malware that appears to be legitimate software or a harmless file but, once installed, performs malicious activities. In the given case, the employee was deceived through a phishing email into downloading and installing apparently genuine software, which enabled the attacker to gain unauthorised access to the system.
- Ransomware: Ransomware is malware that encrypts a victim's data and demands payment in exchange for a decryption key. In the given case, the company's files were encrypted and made inaccessible, followed by a demand for payment to restore access.

Thus, the first incident represents a Trojan attack, while the subsequent encryption and ransom demand represent a Ransomware attack.

3. (a) As per SA 540, Auditing Accounting Estimates and Related Disclosures, in respect of accounting estimates that give rise to significant risks, the auditor shall, in addition to other substantive procedures performed to meet the requirements of SA 330, evaluate the following matters with respect to estimation uncertainty:

- (i) How management has:
 - considered alternative assumptions or outcomes;
 - why it has rejected them; and
 - how management has otherwise addressed estimation uncertainty in making the accounting estimate.
- (ii) Whether the significant assumptions used by management are reasonable.
- (iii) Where relevant to the reasonableness of the significant assumptions or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.

In view of above, the auditor should apply appropriate audit procedures to the estimates in RST Ltd. as follows:

- (i) **Warranty provision:** The auditor should evaluate the method for the ₹80 lakh warranty provision and past claim trends used by management, including whether previous estimates align with actual claims. The auditor should assess the reasonableness of significant assumptions, alternative outcomes and estimation uncertainty relating to future warranty claims.
- (ii) **Unquoted investment:** Since the valuation involves significant estimation uncertainty due to the use of unobservable inputs, the auditor should evaluate the valuation model and methodology used, test relevant data and assess the reasonableness of significant assumptions. The auditor should also consider whether alternative assumptions or valuation outcomes have been appropriately considered and whether the related fair value disclosures adequately describe the estimation uncertainty.
- (iii) **Provision for doubtful debts:** The auditor should critically evaluate the basis for reducing the provision, particularly since the ageing of receivables has worsened. The auditor should examine subsequent collections, ageing analysis, historical loss experience and other relevant evidence, and assess whether the revised assumption is reasonable and whether there is sufficient appropriate audit evidence supporting the expected recoverability of the receivables.

Thus, the auditor should not merely accept management's estimates. The auditor should obtain sufficient appropriate audit evidence by evaluating the methods, data, significant assumptions, estimation uncertainty and management's consideration of alternative outcomes, and should determine whether the resulting accounting estimates and related disclosures are reasonable in the circumstances.

- (b) As per SA 600, "Using the Work of Another Auditor", where the principal auditor uses the work of another auditor in respect of the financial information of a component included in the financial statements of the entity, the principal auditor should comply with the requirements of SA 600.

With regard to determination of materiality during the audit of consolidated financial statements (CFS), the auditor should consider the following:

- The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and

current period consolidation adjustments) that are made by the management in the preparation of CFS.

- The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components and consider using the work of other auditors as applicable.
- The principal auditor also computes the materiality for each component and communicates to the component auditor, if he believes is required for a true and fair view on CFS.
- The principal auditor also obtains certain confirmations from component auditors like independence, code of ethics, certain information required for consolidation and disclosure requirements etc.

However, while considering the observations (for instance modification and /or emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the principles of SA 600 need to be considered. ICAI issued an announcement that states that while considering the observations of the component auditor in his report on the standalone financial statements, the parent auditor should comply with the requirements of SA 600, "Using the Work of Another Auditor". Therefore, the concept of materiality would be considered while considering the observations of the component auditor.

In the present case, CA R should determine and apply appropriate group-level and component-level materiality and communicate the relevant materiality to the component auditor where required. Since the subsidiary is significant to the group and its component auditor has expressed a qualification, CA R should evaluate the nature and circumstances of the qualification and determine its effect on the consolidated financial statements using the applicable group materiality. He should not consider the qualification merely on the basis of its effect on the subsidiary's standalone financial statements.

- (c) Section 143 of the Companies Act, 2013 requires the auditor to report other matters as prescribed under Rule 11 of the Companies (Audit and Auditors) Rules, 2014. As per Rule 11, the auditor is required to report whether the company has used accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention.

In view of above, the auditor is required to ensure that every company maintaining its books of account electronically is required to use accounting software having a feature of recording an audit trail of each and every transaction, creating an edit log of each change made in the books of account when such changes were made. The audit trail should operate throughout the year, and the feature should not be capable of being tampered. The company is also required to preserve the audit trail in accordance with the applicable record-retention requirements.

In the present case, the audit trail was not activated for the payroll module, and for the remaining modules it was enabled only from 1 July 2025. Accordingly, the audit trail was not operational throughout the financial year. Further, the absence of logging of direct database-level changes indicates that changes to the books of account may not have been completely captured. The fact that users having administrative access could deactivate the audit trail is also inconsistent with the requirement that the audit trail should not be capable of being disabled or tampered.

Accordingly, CA Meera should report the above exceptions under Rule 11, based on the audit evidence obtained. She should also evaluate whether the deficiencies in the audit trail and the ability to disable or tamper it have implications for the reliability of accounting records and the company's internal controls and communicate relevant control deficiencies to those charged with governance in accordance with SA 265.

4. (a) SA 501, "Audit Evidence—Specific Considerations for Selected Items", requires the auditor to obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework. For this purpose, the auditor obtains an understanding of the methods used by management in determining segment information and considers whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework.

The examples of matters that may be relevant in this regard include:

- Sales, transfers and charges between segments, and elimination of intersegment amounts.
- Comparisons with budgets and other expected results, for example, operating profits as a percentage of sales.
- The allocation of assets and costs among segments.
- Consistency with prior periods, and the adequacy of the disclosures with respect to inconsistencies.

In the given case, Raja & Co. should accordingly examine the inter-segment transactions, basis of allocation of assets and costs, comparison of segment results with budgets or expected results, and consistency of the methods with prior periods, including the adequacy of disclosures for any changes. This would enable the auditors to assess whether the segment information has been determined and presented in accordance with the applicable financial reporting framework.

- (b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

Although the mandatory requirement of communication with previous auditor being Chartered Accountant applies, in uniform manner, to audits of both government and Non-Government entities, yet in the case of audit of government Companies/ banks or their branches, if the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit. However, in case the time schedule given for the assignment is such that there is no time to wait for the reply from the outgoing auditor, the incoming auditor may give a conditional acceptance of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause. In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor.

In the given case, PN and Associates are appointed as the Statutory Auditors of The Iron Company Ltd. which is a government company as Central Government holds 65% of the paid-up share capital of the company and CA N has given a conditional acceptance of the appointment and commenced the audit. In view of above, it can be concluded that CA N has complied with the provisions of the Chartered Accountants Act, 1949 and the Schedules thereunder.

- (c) Role of the auditor in considering climate-related risks in an audit of financial statements are as follows:
- ◆ The auditor should obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, to report whether the financial statements are prepared and presented fairly,

in all material respects, in accordance with the applicable financial reporting framework.

- ◆ The auditor should include the consideration of climate-related risks and how these risks may be relevant to the audits.
- ◆ The auditor's reports must follow the requirements of applicable auditing standards.
- ◆ The auditor's report provides information about auditor's responsibilities and an understanding of the matters of most significance in an audit and how they were addressed.
- ◆ The auditor in his audit report may include Emphasis of Matter paragraph to draw attention to disclosures that are of fundamental importance to users' understanding of the financial statements.
- ◆ The auditor should determine whether the entity has appropriately disclosed relevant climate-related information in the financial statements in accordance with the applicable FRF.
- ◆ The auditor should read the other information for consistency with information disclosed in the financial statements and information that may be publicly communicated to stakeholders outside the financial statements as required under ISA 720 and SA 720, The Auditor's Responsibilities Relating to Other Information.

5. (a) (I) As per SA 580, "Written Representations", the auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation, as set out in the terms of the audit engagement.

Further, the auditor shall request management to provide written representations that:

- (i) it has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement; and
- (ii) all transactions have been recorded and are reflected in the financial statements.

In the given case, although the management of Joy Ltd. has provided oral confirmations regarding these matters, such oral confirmations do not

substitute the written representations required by SA 580. Accordingly, the contention of Narayan & Co. that formal written representations are required is justified.

- (II) As per SA 580, the written representations shall ordinarily be in the form of a representation letter addressed to the auditor.

However, where law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required, the relevant matters covered by such statements need not be included in the representation letter.

- (III) As per SA 580, if management does not provide one or more of the requested written representations, the auditor shall:

- (i) Discuss the matter with management;
- (ii) Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations, whether oral or written, and audit evidence in general; and
- (iii) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705.

Further, the auditor shall disclaim an opinion on the financial statements in accordance with SA 705, if the auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required are not reliable or management does not provide the written representations required.

Accordingly, the oral confirmations provided by the management of Joy Ltd. cannot, by themselves, replace the written representations required under SA 580. Narayan & Co. should follow the procedures prescribed under SA 580 and consider the consequential effect on the auditor's report if the refusal persists.

- (b) As per SA 610, "Using the Work of Internal Auditors", before using the work of the internal audit function, the external auditor is required to evaluate:

- The extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors.
- The level of competence of the internal audit function.

- Whether the internal audit function applies a systematic and disciplined approach, including quality control.

Where the external auditor plans to use internal auditors to provide direct assistance, additional requirements apply, including obtaining written agreement from an authorised representative of the entity and from the internal auditors, evaluating the existence and significance of threats to objectivity, and the level of competence of the internal auditors providing direct assistance, and discussing with them the planned use of their work.

In the given case, CA Puneet has used the work of the internal audit function without evaluating the objectivity and competence of the internal auditors, and without discussing the planned use of their work with them. This is not in accordance with SA 610. CA Puneet should carry out the required evaluation before using their work, and the external auditor must, in any event, remain responsible for the audit opinion expressed and exercise judgement in determining the nature and extent of use of the internal auditors' work.

- (c) As per Clause (5) of Part II of Second Schedule to the Chartered Accountants Act, 1949 a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he acts as an auditor of the company in contravention of the provisions of the Companies Act, 2013.

In the given case, CA Ajeet while acting as the statutory auditor of Climax Manufacturing Limited, did not comply with the prescribed requirements of the provisions of the Companies Act, 2013.

Hence in the given case, CA Ajeet will be held guilty of professional misconduct under Clause (5) of Part II of Second Schedule to the Chartered Accountants Act, 1949.

6. (a) As per SA 299, "Joint Audit of Financial Statements", prior to the commencement of the audit, the joint auditors shall discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors shall: -
- Identify division of audit areas and common audit areas amongst the joint auditors that define the scope of the work of each joint auditor. Where joint auditors are appointed, they should, by mutual discussion, divide the audit work among themselves. The division of work would usually be in terms of audit of identifiable units or specified areas. In some cases, due to the nature of the business of the entity under audit, such a division of work may not be possible. In such situations, the division of work may be with reference to items of assets or liabilities or income or expenditure. Certain

areas of work, owing to their importance or owing to the nature of the work involved, would often not be divided and would be covered by all the joint auditors.

- Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required
- Consider and communicate among all joint auditors the factors that, in their professional judgment, are significant in directing the engagement team's efforts
- Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other or similar engagements performed earlier by the respective engagement partner for the entity is relevant.
- Ascertain the nature, timing and extent of resources necessary to perform the engagement.

Thus, the approach suggested by CA Bharat and CA Chirag is appropriate, as joint auditors are required to jointly discuss and develop an audit plan before commencement of the audit, including mutual division of work, identification of common audit areas, reporting objectives, significant matters and resource requirements and approach of CA Arjun is not appropriate, as joint auditors should not independently decide their audit areas without prior mutual discussion and coordination while developing the joint audit plan.

- (b)** As per SA 450, "Evaluation of Misstatements Identified during the Audit", the auditor is required to reassess materiality, in accordance with SA 320, "Materiality in Planning and Performing an Audit", before evaluating the impact of uncorrected misstatements. This reassessment is crucial to confirm the ongoing appropriateness of materiality in light of the entity's actual financial results.

The determination of materiality under SA 320 often relies on estimates of the entity's financial results, given that the actual results may not be known during the early stages of the audit. Therefore, before the auditor proceeds to assess the effect of uncorrected misstatements, it becomes necessary to adjust the materiality calculated under SA 320 based on the now available actual financial results.

SA 320 outlines that, as the audit progresses, materiality may be revised for the financial statements as a whole or for specific classes of transactions, account balances, or disclosures. This revision is prompted by the auditor's awareness of information that would have led to a different initial determination. Typically,

significant revisions occur before the evaluation of uncorrected misstatements. However, if the reassessment of materiality under SA 320 results in a lower amount, the auditor must reconsider performance materiality and the appropriateness of the audit procedures' nature, timing, and extent. This is crucial for obtaining sufficient and appropriate audit evidence on which to base the audit opinion.

In the present case involving Super Builders Private Limited, it has been identified that the materiality calculated at the beginning of the audit for revenue was based on estimates provided by the management. The management extrapolated sales for the full year using the actual amount of 11 months, but since the company experiences significant monthly variations in sales, the actual sales for the last month were only 30% of the estimated figure. This discrepancy arose due to an unexpected slowdown in project completion.

In this audit scenario, Mr. Mahavir, the auditor, must review and reassess the materiality initially determined under SA 320 to ensure its continued validity in light of the actual financial results. If the re-assessed materiality is lower than the previously calculated amount, Mr. Mahavir must reconsider performance materiality and the appropriateness of the nature, timing, and extent of further audit procedures. This meticulous approach is essential to gather sufficient and appropriate audit evidence, enabling Mr. Mahavir to form an independent and objective opinion on the financial statements of Super Builders Private Limited.

- (c) As per section 27 of the Chartered Accountants Act, 1949 if a chartered accountant in practice has more than one office in India, each one of these offices should be in the separate charge of a member of the Institute. However, a member can be in charge of two offices if the second office is located in the same premises or in the same city, in which the first office is located; or the second office is located within a distance of 50 kilometers from the municipal limits of a city, in which the first office is located.

Further a member having two offices of the type referred to above, shall have to declare which of the two offices is his main office, which would constitute his professional address.

In the present case, Dheer & Co., a sole proprietary Chartered Accountancy firm in practice with an office in a busy belt of a city and had great difficulty in regularly attending to the consultancy needs of his clients. Therefore, a facilitation centre was opened in the industrial cluster and the proprietor is managing both the office and facilitation centre. The facilitation centre at the industrial cluster is situated 26 kilometres from CA Dheer's existing office. Therefore, the distance is within the

prescribed limit of 50 kilometres, and he may be in charge of both offices himself. However, he is required to comply with the prescribed requirement of intimating the Institute regarding the offices and declaring which of them is his main office/professional address.

Since CA Dheer has not made the requisite intimation to the Institute and has also not declared his main office, he would be liable for professional misconduct in this respect.

OR

- (c) To investigate the profitability of the business for judging the accuracy of the schedule of repayment furnished by the borrower, as well as the value of the security in the form of assets of the business already possessed and those which will be created out of the loan, the investigating accountant should take the under-mentioned steps:
- (I) Prepare a condensed income statement from the Statement of Profit and Loss for the previous five years, showing separately therein various items of income and expenses, the amounts of gross and net profits earned, and taxes paid annually during each of the five years. The amount of maintainable profits determined on the basis of foregoing statement should be increased by the amount by which these would increase on the investment of borrowed funds.
 - (II) Compute the under-mentioned ratios separately and then include them in the statement to show the trend as well as changes that have taken place in the financial position of the company:
 - (i) Sales to Average Inventories held.
 - (ii) Sales to Fixed Assets.
 - (iii) Equity to Fixed Assets.
 - (iv) Current Assets to Current Liabilities.
 - (v) Quick Assets (the current assets that are readily realisable) to Quick Liabilities.
 - (vi) Equity to Long Term Loans.
 - (vii) Sales to Book Debts.
 - (viii) Return on Capital Employed.
 - (III) Enter in a separate part of the statement the break-up of annual sales product-wise to show their trend.